

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended March 31, 2012  
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Commission File Number 1-16411

**NORTHROP GRUMMAN CORPORATION**

(Exact name of registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of  
incorporation or organization)

**80-0640649**

(I.R.S. Employer  
Identification No.)

**2980 Fairview Park Drive, Falls Church, Virginia 22042**  
**www.northropgrumman.com**

(Address of principal executive offices and internet site)

**(703) 280-2900**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of April 20, 2012, 251,503,770 shares of common stock were outstanding.

**NORTHROP GRUMMAN CORPORATION**

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## NORTHROP GRUMMAN CORPORATION

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS AND COMPREHENSIVE INCOME  
(Unaudited)

<i>\$ in millions, except per share amounts</i>	Three Months Ended March 31	
	2012	2011
<b>Sales</b>		
Product	\$3,341	\$3,863
Service	2,857	2,871
Total sales	6,198	6,734
<b>Operating costs and expenses</b>		
Product	2,527	3,003
Service	2,314	2,352
General and administrative expenses	561	568
Operating income	796	811
Other (expense) income		
Interest expense	(53)	(58)
Other, net	13	5
Earnings from continuing operations before income taxes	756	758
Federal and foreign income tax expense	250	262
Earnings from continuing operations	506	496
Earnings from discontinued operations, net of tax	—	34
Net earnings	\$ 506	\$ 530
<b>Basic earnings per share</b>		
Continuing operations	\$ 2.00	\$ 1.70
Discontinued operations	—	0.12
Basic earnings per share	\$ 2.00	\$ 1.82
Weighted-average common shares outstanding, in millions	253.1	291.8
<b>Diluted earnings per share</b>		
Continuing operations	\$ 1.96	\$ 1.67
Discontinued operations	—	0.12
Diluted earnings per share	\$ 1.96	\$ 1.79
Weighted-average diluted shares outstanding, in millions	258.0	296.9
Net earnings (from above)	\$ 506	\$ 530
Other comprehensive income		
Change in cumulative translation adjustment	6	27
Change in unrealized gain on marketable securities and cash flow hedges, net of tax	—	(2)
Change in unamortized benefit plan costs, net of tax	50	21
Other comprehensive income, net of tax	56	46
Comprehensive income	\$ 562	\$ 576

The accompanying notes are an integral part of these condensed consolidated financial statements.

## NORTHROP GRUMMAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION  
(Unaudited)

<i>\$ in millions</i>	March 31, 2012	December 31, 2011
<b>Assets</b>		
Cash and cash equivalents	\$ 2,682	\$ 3,002
Accounts receivable, net of progress payments	3,231	2,964
Inventoried costs, net of progress payments	804	873
Deferred tax assets	466	496
Prepaid expenses and other current assets	177	411
<b>Total current assets</b>	<b>7,360</b>	<b>7,746</b>
Property, plant, and equipment, net of accumulated depreciation of \$4,018 in 2012 and \$3,933 in 2011	2,993	3,047
Goodwill	12,374	12,374
Non-current deferred tax assets	895	900
Other non-current assets	1,431	1,344
<b>Total assets</b>	<b>\$25,053</b>	<b>\$25,411</b>
<b>Liabilities</b>		
Trade accounts payable	\$ 1,226	\$ 1,481
Accrued employees compensation	935	1,196
Advance payments and billings in excess of costs incurred	1,756	1,777
Other current liabilities	1,677	1,681
<b>Total current liabilities</b>	<b>5,594</b>	<b>6,135</b>
Long-term debt, net of current portion	3,933	3,935
Pension and post-retirement plan liabilities	4,080	4,079
Other non-current liabilities	905	926
<b>Total liabilities</b>	<b>14,512</b>	<b>15,075</b>
<b>Commitments and contingencies (Note 8)</b>		
<b>Shareholders' equity</b>		
Preferred stock, \$1 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Common stock, \$1 par value; 800,000,000 shares authorized; issued and outstanding: 2012—252,211,220; 2011—253,889,622	252	254
Paid-in capital	3,646	3,873
Retained earnings	10,077	9,699
Accumulated other comprehensive loss	(3,434)	(3,490)
<b>Total shareholders' equity</b>	<b>10,541</b>	<b>10,336</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$25,053</b>	<b>\$25,411</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

## NORTHROP GRUMMAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
<b>Operating activities</b>		
Sources of cash—continuing operations		
Cash received from customers		
Progress payments	\$ 1,021	\$ 1,035
Collections on billings	4,921	5,427
Other cash receipts	27	7
Total sources of cash—continuing operations	5,969	6,469
Uses of cash—continuing operations		
Cash paid to suppliers and employees	(5,858)	(6,168)
Pension contributions	(17)	(34)
Interest paid, net of interest received	(78)	(96)
Income taxes paid, net of refunds received	(92)	(46)
Excess tax benefits from stock-based compensation	(27)	(9)
Other cash payments	(2)	(4)
Total uses of cash—continuing operations	(6,074)	(6,357)
Cash (used in) provided by continuing operations	(105)	112
Cash used in discontinued operations	—	(232)
Net cash used in operating activities	(105)	(120)
<b>Investing activities</b>		
Continuing operations		
Maturities of short-term investments	250	—
Capital expenditures	(81)	(123)
Contribution received from the spin-off of shipbuilding business	—	1,429
Other investing activities, net	—	38
Cash provided by investing activities from continuing operations	169	1,344
Cash used in investing activities from discontinued operations	—	(63)
Net cash provided by investing activities	169	1,281
<b>Financing activities</b>		
Common stock repurchases	(263)	(13)
Cash dividends paid	(127)	(137)
Proceeds from exercises of stock options	40	43
Excess tax benefits from stock-based compensation	27	9
Payments of long-term debt	—	(750)
Other financing activities, net	(61)	5
Net cash used in financing activities	(384)	(843)
(Decrease) increase in cash and cash equivalents	(320)	318
Cash and cash equivalents, beginning of year	3,002	3,701
Cash and cash equivalents, end of period	\$ 2,682	\$ 4,019

The accompanying notes are an integral part of these condensed consolidated financial statements.

## NORTHROP GRUMMAN CORPORATION

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
<b>Reconciliation of net earnings to net cash used in operating activities</b>		
Net earnings	\$506	\$530
Net earnings from discontinued operations	—	(34)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation	105	103
Amortization	15	18
Stock-based compensation	26	33
Excess tax benefits from stock-based compensation	(27)	(9)
(Increase) decrease in assets:		
Accounts receivable, net	(267)	(245)
Inventoried costs, net	60	30
Prepaid expenses and other assets	(119)	(3)
Increase (decrease) in liabilities:		
Accounts payable and accruals	(635)	(627)
Deferred income taxes	—	19
Income taxes payable	169	289
Retiree benefits	77	34
Other, net	(15)	(26)
Cash (used in) provided by continuing operations	(105)	112
Cash used in discontinued operations	—	(232)
Net cash used in operating activities	(\$105)	(\$120)

*The accompanying notes are an integral part of these condensed consolidated financial statements.*

## NORTHROP GRUMMAN CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
(Unaudited)

<i>\$ in millions, except per share amounts</i>	Three Months Ended March 31	
	2012	2011
<b>Common stock</b>		
Beginning of year	\$ 254	\$ 291
Common stock repurchased	(4)	—
Employee stock awards and options	2	2
End of period	252	293
<b>Paid-in capital</b>		
Beginning of year	3,873	7,778
Common stock repurchased	(256)	(6)
Employee stock awards and options	29	49
Spin-off of shipbuilding business	—	(1,887)
End of period	3,646	5,934
<b>Retained earnings</b>		
Beginning of year	9,699	8,124
Net earnings	506	530
Dividends declared	(128)	(138)
End of period	10,077	8,516
<b>Accumulated other comprehensive loss</b>		
Beginning of year	(3,490)	(2,757)
Other comprehensive income, net of tax	56	46
Spin-off of shipbuilding business	—	524
End of period	(3,434)	(2,187)
Total shareholders' equity	\$10,541	\$12,556
Cash dividends declared per share	\$ 0.50	\$ 0.47

The accompanying notes are an integral part of these condensed consolidated financial statements.

**NORTHROP GRUMMAN CORPORATION**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**1. BASIS OF PRESENTATION**

**Principles of Consolidation and Reporting**

These unaudited condensed consolidated financial statements include the accounts of Northrop Grumman Corporation and subsidiaries (herein referred to as "Northrop Grumman," the "company," "we," "us," or "our"). All material intercompany accounts, transactions, and profits are eliminated in consolidation. Investments in equity securities and joint ventures where the company has significant influence, but not control, are accounted for using the equity method.

The accompanying unaudited condensed consolidated financial statements of the company have been prepared by management in accordance with the rules of the Securities and Exchange Commission (SEC) for interim reporting purposes. These statements include all adjustments of normal recurring nature considered necessary by management for a fair presentation of the condensed consolidated financial position, results of operations, and cash flows.

The results reported in these financial statements are not necessarily indicative of results that may be expected for the entire year. These financial statements should be read in conjunction with the information contained in the company's Annual Report on Form 10-K for the year ended December 31, 2011 (2011 Annual Report on Form 10-K).

The quarterly information is labeled using a calendar convention; that is, first quarter is consistently labeled as ending on March 31, second quarter as ending on June 30, and third quarter as ending on September 30. It is management's long-standing practice to establish actual interim closing dates using a "fiscal" calendar, which requires the businesses to close their books on a Friday near these quarter-end dates in order to normalize the potentially disruptive effects of quarterly closings on business processes. The effects of this practice only exist at interim periods within a reporting year.

**Accounting Estimates**

The accompanying unaudited condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation thereof requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingencies at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Estimates have been prepared on the basis of the most current and best available information; however, actual results could differ materially from those estimates.

The majority of our contracts are accounted for under the percentage-of-completion method. For such contracts, changes in estimates of contract sales, costs and profits are recognized using the cumulative catch-up method of accounting. This method recognizes, in the current period, the cumulative effect of the changes in contract performance as if the revised estimate had been used since contract inception. Changes in contract estimates occur for a variety of reasons, including changes in contract scope, changes in estimated contract revenue, changes in contract cost estimates due to unanticipated cost growth or the resolution of contract risks at lower costs than anticipated, as well as changes in contract overhead costs over the performance period. The company has an extensive contract management process involving several functional organizations and numerous personnel who are skilled at managing contract activities. As the company's business involves performing on a broad portfolio of long-term contracts, generally involving complex customized products and services, changes in estimates occur routinely over the contract performance period.

Significant changes in estimates on a single contract could have a material effect on the company's consolidated financial position or results of operations, and where such changes occur, separate disclosure is made of the nature, underlying conditions and financial impact of the change. Aggregate net changes in contract estimates recognized using the cumulative catch-up method of accounting increased operating income by \$265 million (\$0.67 per diluted share) and \$144 million (\$0.32 per diluted share) during the three months ended March 31, 2012 and 2011, respectively. No discrete event or adjustment to an individual contract was material to the condensed consolidated statements of earnings and comprehensive income for either period.

**Related Party Transactions**

For all periods presented, the company had no material related party transactions.

**Accounting Standards Updates**

Accounting standards updates effective after March 31, 2012 are not expected to have a material effect on the company's consolidated financial position or results of operations.

**NORTHROP GRUMMAN CORPORATION****Accumulated Other Comprehensive Loss**

The components of accumulated other comprehensive loss are as follows:

<i>\$ in millions</i>	<b>March 31, 2012</b>	December 31, 2011
Unamortized benefit plan costs, net of tax benefit of \$2,252 as of March 31, 2012 and \$2,289 as of December 31, 2011	<b>(\$3,437)</b>	(\$3,487)
Cumulative translation adjustment	<b>2</b>	(4)
Net unrealized gain on marketable securities and cash flow hedges, net of tax expense	<b>1</b>	1
<b>Total accumulated other comprehensive loss</b>	<b>(\$3,434)</b>	(\$3,490)

Unamortized benefit plan costs consist primarily of net after-tax actuarial losses totaling \$3.8 billion and \$3.9 billion as of March 31, 2012, and December 31, 2011, respectively. Net actuarial gains or losses principally arise from gains or losses on plan assets due to variations in the fair market value of the underlying assets and changes in the benefit obligation due to changes in actuarial assumptions, primarily changes in the discount rate.

**2. EARNINGS PER SHARE, SHARE REPURCHASES AND DIVIDENDS ON COMMON STOCK****Basic Earnings Per Share**

Basic earnings per share amounts from both continuing and discontinued operations are calculated by dividing the respective earnings by the weighted-average number of shares of common stock outstanding during each period.

**Diluted Earnings Per Share**

Diluted earnings per share includes the dilutive effect of stock awards granted to employees under stock-based compensation plans. The dilutive effect of these securities totaled 4.9 million shares and 5.1 million shares for the three months ended March 31, 2012 and 2011, respectively. The weighted-average diluted shares outstanding for the three months ended March 31, 2012 and 2011, exclude anti-dilutive stock options to purchase approximately 2.8 million shares for both periods because such options have exercise prices in excess of the average market price of the company's common stock during the period.

**Share Repurchases**

The table below summarizes the company's share repurchases:

Repurchase Program Authorization Date	Amount Authorized (in millions)	Total Shares Retired (in millions)	Average Price Per Share <sup>(2)</sup>	Shares Repurchased (in millions)	
				Three Months Ended March 31 <b>2012</b>	2011
June 16, 2010 <sup>(1)</sup>	\$4,245	48.5	\$57.63	<b>4.4</b>	0.1

(1) On June 16, 2010, the company's board of directors authorized a share repurchase program of up to \$2.0 billion of the company's common stock. On April 25, 2011, after the company had repurchased shares totaling \$245 million, the company's board of directors authorized an increase to the remaining share repurchase authorization to \$4.0 billion. As of March 31, 2012, the company had \$1.4 billion remaining under this authorization for share repurchases.

(2) Calculated as the average price paid per share under the respective repurchase program, including commissions paid.

Share repurchases take place at management's discretion or under pre-established, non-discretionary programs, depending on market conditions, in the open market, and in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase program authorizations. In connection with the spin-off of the former shipbuilding business (see Note 3), the company obtained a Private Letter Ruling from the Internal Revenue Service that generally limits our share repurchases to approximately 88 million shares within two years of the spin-off. The limitation expires on March 31, 2013. Due to share repurchases subsequent to the spin-off, the remaining number of shares that we can repurchase under this share repurchase limitation as of March 31, 2012, was approximately 43 million shares. Cash available from unusual transactions, such as the disposition of significant assets, should they arise, can be used to repurchase additional shares.

**NORTHROP GRUMMAN CORPORATION****Dividends on Common Stock**

Effective for shareholders of record as of May 31, 2011, the company increased the common stock dividend to \$0.50 per share, an increase from the previous amount of \$0.47 per share.

**3. BUSINESS DISPOSITIONS AND DISCONTINUED OPERATIONS****Spin-off of Shipbuilding Business**

The company completed the spin-off to its shareholders of Huntington Ingalls Industries, Inc. (HII) effective March 31, 2011. HII was formed to operate the company's former shipbuilding business. The company made a pro rata distribution to its shareholders of one share of HII common stock for every six shares of the company's common stock held on the record date of March 30, 2011, or 48.8 million shares of HII common stock. HII paid a \$1.4 billion cash contribution to the company. There was no gain or loss recognized as a result of the spin-off transaction.

Prior to the completion of the spin-off, the company and HII entered into a Separation and Distribution Agreement dated March 29, 2011, and several other agreements that govern the post-separation relationship. These agreements generally provide that each party is responsible for its respective assets, liabilities and obligations following the spin-off, including employee benefits, intellectual property, information technology, insurance, and tax-related assets and liabilities. The agreements also describe the company's commitments to provide HII with certain transition services for up to one year. During the quarter ended March 31, 2012, the company and HII agreed to extend certain information technology transition services for a limited time beyond the initial one-year term. Costs incurred for transition services are reimbursed by HII.

In connection with the spin-off, the company incurred \$23 million of non-deductible transaction costs for the three-months ended March 31, 2011, which were included in discontinued operations.

**Discontinued Operations**

Earnings for the former shipbuilding business and an adjustment to the gain from a previous divestiture recognized in the three months ended March 31, 2011, are reported as discontinued operations, as presented in the following table:

*\$ in millions*

Sales	\$1,646
Earnings from discontinued operations	59
Income tax expense	(26)
Earnings, net of tax	33
Gain on divestiture, net of income tax expense of \$1	1
Earnings from discontinued operations, net of tax	\$ 34

There were no assets or liabilities related to these discontinued operations included in the condensed consolidated statements of financial position as of March 31, 2012, or December 31, 2011.

**4. SEGMENT INFORMATION**

The company is aligned into four reportable segments: Aerospace Systems, Electronic Systems, Information Systems, and Technical Services. The U.S. government is the primary customer for all four of our segments.

The company, from time to time, acquires or disposes of businesses and realigns contracts, programs or business areas among and within its operating segments that possess similar customers, expertise and capabilities. Internal realignments are designed to more fully leverage existing capabilities and enhance development and delivery of products and services.

**Segment Realignment**

On January 1, 2012, the company transferred its missile business (principally the Intercontinental Ballistic Missile (ICBM) program), from Aerospace Systems to Technical Services. In connection with this realignment, \$51 million of goodwill was transferred from Aerospace Systems to Technical Services. The segment sales and segment operating income for the three months ended March 31, 2011, have been recast to reflect the missile business transfer. Sales of \$143 million and segment operating income of \$14 million were transferred from Aerospace Systems to Technical Services for the three months ended March 31, 2011.

**NORTHROP GRUMMAN CORPORATION****Intersegment Eliminations**

As of December 31, 2011, the company revised its reporting of intersegment operating costs and expenses, whereby intersegment costs are now reported based on the predominant attributes of the customer contract, rather than the attributes of the intersegment work performed. As a result, in the condensed consolidated statements of earnings and comprehensive income, product costs has been retrospectively increased by \$161 million for the three months ended March 31, 2011, and service costs has been retrospectively decreased by the same amount, while consolidated sales, operating costs and expenses, segment operating income and operating income remain unchanged.

The following table presents sales and operating income by segment:

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
<b>Sales</b>		
Aerospace Systems	\$2,383	\$2,593
Electronic Systems	1,724	1,808
Information Systems	1,844	2,025
Technical Services	750	831
Intersegment eliminations	(503)	(523)
<b>Total sales</b>	<b>\$6,198</b>	<b>\$6,734</b>
<b>Operating income</b>		
Aerospace Systems	\$ 279	\$ 287
Electronic Systems	304	237
Information Systems	205	194
Technical Services	70	68
Intersegment eliminations	(69)	(65)
<b>Total segment operating income</b>	<b>789</b>	<b>721</b>
Reconciliation to operating income:		
Unallocated corporate expenses	(23)	(10)
Net pension adjustment	32	103
Royalty income adjustment	(2)	(3)
<b>Total operating income</b>	<b>\$ 796</b>	<b>\$ 811</b>

**Unallocated Corporate Expenses**

Unallocated corporate expenses generally include the portion of corporate expenses not considered allowable or allocable under applicable United States (U.S.) Government Cost Accounting Standards (CAS) regulations and the Federal Acquisition Regulation, and therefore not allocated to the segments. Such costs consist of management and administration, legal, environmental, certain compensation costs, certain retiree benefits, and other expenses.

**Net Pension Adjustment**

The net pension adjustment reflects the difference between pension expense determined in accordance with GAAP and pension expense allocated to the operating segments determined in accordance with CAS. For the three months ended March 31, 2012 and 2011, the net pension adjustment resulted in income of \$32 million and \$103 million, respectively. The decrease in net pension adjustment for the three months ended March 31, 2012, as compared to the same period in 2011, is primarily due to increased GAAP pension expense resulting from amortization of prior year actuarial losses.

**Royalty Income Adjustment**

Royalty income is included in segment operating income and reclassified to other income for financial reporting purposes.

**5. INCOME TAXES**

The company's effective tax rate on earnings from continuing operations for the three months ended March 31, 2012 and 2011, was 33.1 percent and 34.6 percent, respectively. The company's lower effective tax rate in the first quarter

**NORTHROP GRUMMAN CORPORATION**

of 2012 reflects deductions for current year domestic manufacturing and additional deductions from filing amended tax returns for certain open years which generated additional domestic manufacturing benefit, partially offset by the absence of research tax credits, which expired at the end of 2011.

The company recognizes accrued interest and penalties related to uncertain tax positions in federal and foreign income tax expense. The company files income tax returns in the U.S. federal jurisdiction, and in various state and foreign jurisdictions. The Internal Revenue Service is currently conducting an examination of the company's tax returns for the years 2007 through 2009. Open tax years related to state and foreign jurisdictions remain subject to examination, but are not considered material.

**6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

The following table presents fair value information for those assets and liabilities measured at fair value on a recurring basis:

<i>\$ in millions</i>	March 31, 2012		December 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets (Liabilities)</b>				
Marketable securities				
Trading	\$ 235	\$ 235	\$ 219	\$ 219
Available-for-sale	5	5	4	4
Held-to-maturity time deposits	—	—	250	250
Derivatives	5	5	7	7
Long-term debt, including current portion	(\$3,938)	(\$4,687)	(\$3,940)	(\$4,675)

There were no transfers of financial instruments between the three levels of fair value hierarchy during the three months ended March 31, 2012.

The carrying amounts of all other financial instruments not shown above approximate fair value due to their short-term nature.

**Investments in Marketable Securities**

The company holds a portfolio of marketable securities, consisting of equity securities that are classified as either trading or available-for-sale and can be liquidated without restriction. These assets are recorded at fair value and are valued using Level 1 inputs (quoted market prices). In addition, the company holds short-term investments classified as held-to-maturity that are recorded at cost. Marketable securities as of March 31, 2012, were included in other non-current assets in the condensed consolidated statements of financial position. As of December 31, 2011, marketable securities of \$250 million were included in prepaid expenses and other current assets and \$223 million were included in other non-current assets in the condensed consolidated statements of financial position.

**Derivative Financial Instruments and Hedging Activities**

The notional values of our derivative portfolio, which at March 31, 2012, and December 31, 2011, consisted solely of foreign currency forward contracts, were \$259 million and \$233 million, respectively.

Derivative financial instruments are recognized as assets or liabilities in the financial statements and measured at fair value, and substantially all of these instruments are valued using Level 2 inputs.

Unrealized gains or losses on the effective portion of cash flow hedges are reclassified from other comprehensive income to earnings from continuing operations upon the settlement of the underlying transactions. Hedge contracts not designated for hedge accounting and the ineffective portion of cash flow hedges are recorded in other income. The derivative fair values and related unrealized gains/losses at March 31, 2012, and December 31, 2011, were not material.

**Long-term Debt**

The fair value of long-term debt is calculated using Level 2 inputs based on interest rates available for debt with terms and maturities similar to the company's existing debt arrangements.

## NORTHROP GRUMMAN CORPORATION

### 7. LITIGATION, INVESTIGATIONS AND CLAIMS

#### Litigation

On June 22, 2007, a putative class action was filed against the Northrop Grumman Pension Plan and the Northrop Grumman Retirement Plan B and their corresponding administrative committees, styled as *Skinner et al. v. Northrop Grumman Pension Plan, etc., et al.*, in the U.S. District Court for the Central District of California. The putative class representatives alleged violations of ERISA and breaches of fiduciary duty concerning a 2003 modification to the Northrop Grumman Retirement Plan B. The modification relates to the employer-funded portion of the pension benefit available during a five-year transition period that ended on June 30, 2008. The plaintiffs dismissed the Northrop Grumman Pension Plan, and in 2008, the District Court granted summary judgment in favor of all remaining defendants on all claims. The plaintiffs appealed, and in May 2009, the U.S. Court of Appeals for the Ninth Circuit reversed the decision of the District Court and remanded the matter back to the District Court for further proceedings, finding that there was ambiguity in a 1998 summary plan description related to the employer-funded component of the pension benefit. After the remand, the plaintiffs filed a motion to certify a class. The parties also filed cross-motions for summary judgment. On January 26, 2010, the District Court granted summary judgment in favor of the Plan and denied the plaintiffs' motion for summary judgment. The District Court also denied the plaintiffs' motion for class certification and struck the trial date of March 23, 2010, as unnecessary given the District Court's grant of summary judgment for the Plan. The plaintiffs appealed the District Court's order to the Ninth Circuit. On March 16, 2012, the Ninth Circuit affirmed the district court. On March 30, 2012, the plaintiffs moved for rehearing or rehearing en banc.

In 2007, the company was awarded an approximately \$875 million firm fixed price contract for the U.S. Postal Service (USPS) flats sequencing systems postal automation program (FSS). Those systems have now been delivered. Over the past two years, the company has submitted three certified claims to the USPS related to this program seeking approximately \$179 million. Some of the company's claims are for unpaid portions of the contract price ( \$63 million) and direct costs incurred. Other claims are based on the company's assertions that through various acts and omissions over the life of the contract, the USPS adversely affected the cost and schedule of performance and materially altered the company's obligations under the contract. With limited exceptions, the USPS Contracting Officer has now denied the company's three certified claims. On April 13, 2012, when the Contracting Officer denied most of the company's last two claims, he also asserted claims against the company in the net amount of approximately \$341 million. The USPS claims appear to the company to be primarily that, due to delays in performance, the USPS was damaged because it did not realize certain cost savings it expected from deploying the systems earlier. The company anticipates that this dispute will result in litigation. Although the nature and ultimate outcome of any such future litigation, including any possible loss, cannot be predicted or estimated at this time, the company intends vigorously to pursue this matter.

The company is a party to various investigations, lawsuits, claims and other legal proceedings, including government investigations and claims, that arise in the ordinary course of our business. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter. However, based on information available to the company to date and other than with respect to the FSS matter, which is discussed separately above, the company does not believe that the outcome of any matter pending against the company, is likely to have a material adverse effect on the company's consolidated financial position as of March 31, 2012, or its annual results of operations or cash flows.

### 8. COMMITMENTS AND CONTINGENCIES

#### Contract Performance Contingencies

Contract profit margins may include estimates of revenues not contractually agreed to between the customer and the company for matters such as settlements in the process of negotiation, contract changes, claims and requests for equitable adjustment for previously unanticipated contract costs. As of March 31, 2012, the recognized amounts related to claims and requests for equitable adjustment are not material individually or in the aggregate.

#### Contract Terminations

The company's U.S. Government contracts generally contain provisions that enable the customer to terminate a contract for default, or for the convenience of the government. If the contract is terminated for default, the contractor may not be entitled to recover any of its costs on partially completed work and may be liable to the government for any excess re-procurement costs of acquiring similar products or services from another contractor, and for certain other damages. Termination of a contract for the convenience of the government may occur when the government concludes it is in the best interests of the U.S. Government that the contract be terminated. Under a termination for convenience, the contractor is typically paid in accordance with the contract's terms for costs incurred under the

## **NORTHROP GRUMMAN CORPORATION**

contract prior to the effective date of termination, plus a reasonable profit and settlement expenses. The company does not have any contract termination in process that would have a material effect on our consolidated financial position or results of operations at March 31, 2012.

### **Guarantees of Subsidiary Performance Obligations**

From time to time in the ordinary course of business, the company guarantees obligations of its subsidiaries under certain contracts. Generally, the company is liable under such an arrangement only if its subsidiary is unable to perform under its contract. Historically, the company has not incurred any substantial liabilities as a result of these guarantees.

In addition, the company's subsidiaries may enter into joint ventures, teaming and other business arrangements (collectively, Business Arrangements) to support the company's products and services in domestic and international markets. The company generally strives to limit its exposure under these arrangements to its subsidiary's investment in the Business Arrangements, or to the extent of such subsidiary's obligations under the applicable contract. In some cases, however, the company is required to guarantee performance by the Business Arrangements and, in such cases, the company generally obtains cross-indemnification from the other members of the Business Arrangements.

At March 31, 2012, the company is not aware of any existing event of default that would require it to satisfy any of these guarantees.

### **U.S. Government Cost Claims**

From time to time, the company is advised of claims by the U.S. Government concerning certain potential disallowed costs, plus at times, penalties and interest. When such findings are presented, the company and the U.S. Government representatives engage in discussions to enable the company to evaluate the merits of these claims, as well as to assess the amounts being claimed. Where appropriate, provisions are made to reflect the company's expected exposure to the matters raised by the U.S. Government. Such provisions are reviewed on a quarterly basis for sufficiency based on the most recent information available. The company believes that it has adequately reserved for any disputed amounts and that the outcome of any such matters would not have a material adverse effect on its consolidated financial position as of March 31, 2012, or its annual results of operations or cash flows.

### **Environmental Matters**

The estimated cost to complete remediation has been accrued where the company believes, based on the facts and circumstances known to the company, that it is probable that the company will incur costs to address environmental impacts at currently or formerly owned or leased operating facilities, or at sites where it has been named a Potentially Responsible Party by the Environmental Protection Agency, or similarly designated by other environmental agencies. As of March 31, 2012, management estimates that the range of reasonably possible future costs for environmental remediation is between \$308 million and \$748 million, before considering the amount recoverable through overhead charges on U.S. Government contracts. At March 31, 2012, the amount accrued for probable environmental remediation costs was \$336 million, of which \$84 million is accrued in other current liabilities and \$252 million is accrued in other non-current liabilities. A portion of the environmental remediation costs is expected to be recoverable through overhead charges on government contracts and, accordingly, such amounts are deferred in inventoried costs and other non-current assets. As of March 31, 2012, \$55 million is deferred in inventoried costs and \$142 million is deferred in other non-current assets. These amounts are evaluated for recoverability on a routine basis. Although management cannot predict whether new information gained as projects progress will materially affect the estimated liability accrued, management does not anticipate that future remediation expenditures will have a material adverse effect on the company's consolidated financial position as of March 31, 2012, or its annual results of operations or cash flows.

### **Financial Arrangements**

In the ordinary course of business, the company uses standby letters of credit and guarantees issued by commercial banks and surety bonds issued principally by insurance companies to guarantee the performance on certain obligations. At March 31, 2012, there were \$184 million of stand-by letters of credit, \$169 million of bank guarantees, and \$109 million of surety bonds outstanding.

### **Indemnifications**

The company has retained certain warranty, environmental, income tax, and other potential liabilities in connection with certain of its divestitures. The settlement of these liabilities is not expected to have a material adverse effect on the company's consolidated financial position as of March 31, 2012, or its annual results of operations or cash flows.

### **Operating Leases**

Rental expense for operating leases, excluding discontinued operations, was \$84 million and \$105 million for the

**NORTHROP GRUMMAN CORPORATION**

three months ended March 31, 2012 and 2011, respectively. These amounts are net of immaterial amounts of sublease rental income.

**Guarantee of Former Subsidiary**

A subsidiary of the company has guaranteed HII's outstanding \$84 million Economic Development Revenue Bonds (Ingalls Shipbuilding, Inc. Project), Taxable Series 1999A. The immaterial fair value of this guarantee was recorded in other long-term liabilities. In addition, HII has assumed the responsibility for the payment and performance of all outstanding indebtedness, obligations and liabilities of the company under this guarantee, and has agreed to indemnify the company against all liabilities that may be incurred in connection with this guarantee.

**9. RETIREMENT BENEFITS**

The cost of the company's pension plans and post-retirement medical and life benefit plans is shown in the following table:

<i>\$ in millions</i>	Three Months Ended March 31			
	Pension Benefits		Medical and Life Benefits	
	2012	2011	2012	2011
<b>Components of net periodic benefit cost</b>				
Service cost	\$131	\$130	\$ 8	\$ 8
Interest cost	296	305	27	29
Expected return on plan assets	(427)	(423)	(17)	(16)
Amortization of:				
Prior service cost (credit)	(15)	6	(12)	(13)
Net loss from previous years	107	41	5	3
Other	2	—	—	—
<b>Net periodic benefit cost</b>	<b>\$ 94</b>	<b>\$ 59</b>	<b>\$11</b>	<b>\$11</b>

**Employer Contributions**

The company's required minimum funding in 2012 for its defined benefit pension plans and its medical and life benefit plans are approximately \$65 million and \$120 million, respectively. For the three months ended March 31, 2012, contributions of \$17 million have been made to the company's defined benefit pension plans, and contributions of \$14 million have been made to the company's medical and life benefit plans. The company also sponsors defined contribution plans, and for the three months ended March 31, 2012, and 2011, contributions of \$76 million and \$85 million, respectively, were made to these plans.

**10. STOCK COMPENSATION PLANS AND OTHER COMPENSATION ARRANGEMENTS****Stock Awards**

On February 15, 2012, the company granted certain employees 0.5 million restricted stock rights (RSRs) and 1.2 million restricted performance stocks rights (RPSRs) under the company's long-term incentive stock plan with a grant date aggregate fair value of \$102 million. The RSRs will vest on the third anniversary of the grant date, while the RPSRs will vest and pay out based on the achievement of financial metrics for the three-year period ending December 31, 2014.

**Cash Awards**

On February 15, 2012, the company granted certain employees 0.6 million cash units (CUs) and 1.3 million cash performance units (CPUs) with a minimum aggregate payout amount of \$34 million and a maximum aggregate payout amount of \$190 million. The CUs will vest and settle in cash on the third anniversary of the grant date, while the CPUs will vest and pay out based on the achievement of financial metrics for the three-year period ending December 31, 2014.

**NORTHROP GRUMMAN CORPORATION**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
Northrop Grumman Corporation  
Falls Church, Virginia

We have reviewed the accompanying condensed consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of March 31, 2012, and the related condensed consolidated statements of earnings and comprehensive income, cash flows, and changes in shareholders' equity for the three-month periods ended March 31, 2012 and 2011. These interim financial statements are the responsibility of the Corporation's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statement of financial position of Northrop Grumman Corporation and subsidiaries as of December 31, 2011, and the related consolidated statements of operations, cash flows, and changes in shareholders' equity for the year then ended (not presented herein); and in our report dated February 7, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated statement of financial position as of December 31, 2011 is fairly stated, in all material respects, in relation to the consolidated statement of financial position from which it has been derived.

/s/ Deloitte & Touche LLP  
McLean, Virginia  
April 24, 2012

## NORTHROP GRUMMAN CORPORATION

### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

#### OVERVIEW

Northrop Grumman Corporation (herein referred to as "Northrop Grumman," the "company," "we," "us," or "our") provides technologically advanced, innovative products, services, and integrated solutions to global customers through four sectors: Aerospace Systems, Electronic Systems, Information Systems and Technical Services. We participate in many high-priority defense and government services technology programs in the United States (U.S.) and abroad as a prime contractor, principal subcontractor, partner, or preferred supplier. We conduct the majority of our business with the U.S. Government, principally the Department of Defense (DoD). We also conduct business with foreign, state, and local governments, as well as domestic and international commercial customers.

The following discussion should be read along with the unaudited condensed consolidated financial statements included in this Form 10-Q, as well as our Annual Report on Form 10-K for the year ended December 31, 2011. The Form 10-K provides a more thorough discussion of our products and services, environment, industry outlook, and business trends. See further discussions in the Consolidated Operating Results and Segment Operating Results sections that follow.

#### Political and Economic Environment

The fiscal year 2012 defense budget provides a nominal increase in base funding (which excludes funding for Overseas Contingency Operations) over fiscal year 2011 levels. The President's Budget request for fiscal year 2013 has been submitted to Congress; the DoD base budget request represents a slight real decline from fiscal year 2012. We anticipate significant debate within the government over defense spending to continue for fiscal year 2013 throughout the Congressional budget process. The forthcoming general election in November is expected to generate significant additional political dialogue centered around the federal deficit and potential cuts in government spending. Budget decisions made in this environment could have long-term consequences for our company and the entire defense industry. In particular, should the process of sequestration be implemented in January 2013 as currently mandated, we would expect significant program impacts across our company and the defense industry that could materially impact our personnel, supply chain, the capacity of our customer community to conduct its operations, and ultimately our financial outlook. While Congressional leadership appears to be considering options to avoid such an outcome, it remains uncertain as to whether the government will succeed in doing so.

We expect U.S. force levels and budget resources tied to current major deployments to continue to draw down. As overall defense spending is reduced, the DoD is re-evaluating the role and structure of the military. The DoD recently released a new defense strategy intended to guide its priorities and budgeting decisions. The new guidance indicates the U.S. military needs to project power globally and operate effectively in all domains, including cybersecurity, and it places particular emphasis on the Asia Pacific region as an area of strategic focus.

In January 2012, the Secretary of Defense proposed a number of program changes and cancellations that are scheduled to take place over the next several years, in part to comply with certain provisions of the Budget Control Act. Certain of these announced program changes and cancellations would have an impact on programs in which we participate (such as the recent announcements regarding the Block 30 Global Hawk and F-35 programs).

We believe that spending on recapitalization, modernization and maintenance of defense, intelligence, and homeland security assets will continue to be a national priority. Future defense spending is expected to include the development and procurement of new manned and unmanned military platforms and systems along with advanced electronics and software to enhance the capabilities of individual systems and provide real-time integration of individual surveillance, information management, strike, and battle management platforms. We expect significant new competitive opportunities to include long range strike, missile defense, command and control, strike communications, enhanced situational awareness, satellite communications systems, restricted programs, cybersecurity, technical services and information technology contracts, as well as numerous international and homeland security programs.

#### Recent Developments in U.S. Government Cost Accounting Standards (CAS) Pension Recovery Rules

On December 27, 2011, the CAS Board published a final rule revising Cost Accounting Standard (CAS) 412, "Composition and Measurement of Pension Cost," and CAS 413, "Adjustment and Allocation of Pension Cost." These revisions partially harmonize the measurement and period of assignment of defined benefit pension plan costs allocable to U.S. Government contracts, and the minimum required contribution under the Employee Retirement Income Security Act of 1974 (ERISA), as amended, as required by the Pension Protection Act (PPA) of 2006. The rule should better align, but not eliminate, mismatches between ERISA funding requirements and CAS pension costs for government CAS covered contracts. Under the final rule, there is a five-year transition period, during which an increasing percentage of the harmonization effect is recognized, starting from 0% in the first year of applicability

## **NORTHROP GRUMMAN CORPORATION**

(when relatively minor changes in amortization periods for gains and losses become applicable) to 100% in the fifth year and thereafter. The rule became effective on February 27, 2012 (the "effective date") with 2013 being the first year of applicability of the revised rule for any of the changes to the company's cost accounting practices required by the rule. Price proposals for CAS covered contracts awarded on or after the effective date consider the effects of the rule. For CAS covered contracts that were awarded prior to the effective date, contractors are entitled to an equitable adjustment for any additional CAS basis contract costs resulting from implementation of the final rule. We currently are assessing the amounts and timing of equitable adjustments due to the Company. Such adjustments will be subject to negotiation and cannot be determined with certainty at this time.

### **Operating Performance Assessment and Reporting**

We manage and assess the performance of our business based on our performance on contracts and programs (two or more closely-related contracts), with consideration given to the Critical Accounting Policies, Estimates and Judgments described in Part II, Item 7 of our 2011 Annual Report on Form 10-K. Our portfolio of long-term contracts is largely flexibly-priced, which means that sales tend to fluctuate in concert with costs across our large portfolio of contracts. Due to Federal Acquisition Regulations (FAR) rules that govern our business, most types of costs are allowable, and we do not focus on individual cost groupings (such as manufacturing, engineering, and design labor costs, subcontractor costs, material costs, overhead costs, and general and administrative costs), as much as we do on total contract costs, which is the key driver of both sales and operating income.

Our contract management process involves the use of contract estimates-at-completion (EACs) that are generally prepared and evaluated on a bottoms-up basis at least annually and reviewed on a quarterly basis over the performance period of the contract. These EACs include an estimated contract operating income margin based initially on the contract award amount, adjusted to reflect estimated risks related to contract performance. These risks typically include technical risk, schedule risk and performance risk based upon our evaluation of the contract effort. Similarly, the EACs include identified opportunities for operating income margin rate improvement. Over the performance period of the contract, our program management organizations perform evaluations of contract performance and adjust the contract revenue and cost estimates to reflect the latest reliable information available. Our business and program management organizations are comprised of skilled professional managers whose objective is to satisfy the customer's expectations, deliver high quality products and services, and manage contract risks and opportunities to achieve an appropriate operating income margin rate on the contract. Our comprehensive business and contract management process involves personnel from the planning, production control, contracts, cost management, supply chain and program and business management functions. As part of this overall contract management function, these personnel monitor compliance with our critical accounting policies related to contract accounting and compliance with U. S. Government regulations. As a result, contract operating income and period-to-period contract operating income margin rates are adjusted over the contract performance period to reflect changes in the risks and opportunities affecting the contract, and adjustments may have a favorable or unfavorable effect on operating income margin depending upon the specific conditions affecting each contract.

In evaluating our operating performance, we look primarily at changes in sales, and operating income, including the effects of meaningful changes in operating income as a result of changes in contract estimates and the use of the cumulative catch-up method of accounting in accordance with GAAP. Where applicable, significant fluctuations in operating performance attributable to individual contracts or programs, or changes in a specific cost element across multiple contracts are described in our analysis. Based on this approach and the nature of our operations, the discussion of results of operations first focuses around our four segments before distinguishing between products and services. Changes in sales are generally described in terms of volume, deliveries or other indicators of sales activity. For purposes of this discussion, volume generally refers to increases or decreases in cost or sales from production/service activity levels or delivery rates. Performance refers to changes in contract margin rates for the period, primarily related to the changes in estimates referred to above.

### **Consolidated Financial Summary**

Sales for the three months ended March 31, 2012, was \$6.2 billion, a decrease of \$536 million, or 8 percent, as compared with the same period in 2011. The decrease is due to volume reductions at all four segments. Operating income for the three months ended March 31, 2012, decreased \$15 million, or 2 percent, as compared with the same period in 2011 as a result of lower volume and lower FAS/CAS pension adjustment, which were partially offset by higher segment operating income. Operating margin rate increased 80 basis points from 12.0 percent to 12.8 percent, reflecting improved performance across each segment, including the impact of cost reduction initiatives to increase our competitiveness and a lower Financial Accounting Standards (FAS)/CAS pension adjustment.

Total backlog at March 31, 2012, and December 31, 2011, was \$39.1 billion and \$39.5 billion, respectively. The value of contract awards booked during the three months ended March 31, 2012, was \$5.8 billion.

**NORTHROP GRUMMAN CORPORATION****CONSOLIDATED OPERATING RESULTS**

Selected financial highlights are presented in the table below:

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
Sales	\$6,198	\$6,734
Operating costs and expenses	5,402	5,923
Operating income	796	811
Operating margin rate	12.8%	12.0%
Interest expense	(53)	(58)
Federal and foreign income tax expense	250	262
Cash (used in) provided by continuing operations	(105)	112

**Sales**

Sales for the three months ended March 31, 2012 decreased \$536 million, or 8 percent, as compared with the same period in 2011, reflecting lower sales at all four segments, with the largest reductions at Aerospace Systems and Information Systems, an approximate \$200 million reduction for each. The largest driver at Aerospace Systems is the transition of F-35 to units-of-deliveries revenue recognition method, which drove a decrease in sales of \$87 million compared to 2011. No single contract or program at Information Systems contributed significantly to its decrease. For further information by segment refer to Segment Operating Results, and for further information on product and service detail, refer to the Segment Operating Results and the Product and Service Analysis section that follows.

**Operating Costs and Expenses**

Operating costs and expenses consist of the following:

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
Product	\$2,527	\$3,003
Service	2,314	2,352
General and administrative	561	568
Operating costs and expenses	\$5,402	\$5,923

Operating costs and expenses are primarily comprised of labor, material, subcontractor, and overhead costs, and are generally allocated to contracts as they are incurred. Operating costs and expenses decreased \$521 million, or 9 percent, as compared with the same period in 2011. The driver of the reduction in operating costs and expenses is reduced volume at all four of our segments, with Aerospace Systems and Information Systems driving the majority of the decrease, a reduction of approximately \$200 million each. Offsetting this decrease is a lower net pension adjustment. For further information on operating costs and expenses, see the Product and Service Analysis section that follows.

In accordance with industry practice and the regulations that govern cost accounting requirements for government contracts, most general corporate expenses incurred at both the segment and corporate locations are considered allowable and allocable costs. For most components of the company, these general and administrative costs are allocated to contracts in progress on a systematic basis and contract performance factors include this cost component as an element of cost. General and administrative expenses as a percentage of total sales increased to 9.1 percent for the three months ended March 31, 2012, from 8.4 percent for the same period in 2011, primarily due to increased independent research and development costs and bid and proposal costs of approximately \$20 million, while sales decreased from prior year.

**Operating Income**

We define operating income as sales less operating costs and expenses, including general and administrative expenses. We also further evaluate operating income for each of the business segments in which we operate. Segment operating income reflects the aggregate performance results of contracts within a business area or segment.

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Excluded from this measure are certain corporate-level expenses that are not considered allowable or allocable under applicable CAS and Federal Acquisition Regulations.

Changes in estimated sales, operating costs and expenses and resulting operating income related to our contracts accounted for using the percentage-of-completion method are recorded using the cumulative catch-up method of accounting. The aggregate effects of these favorable and unfavorable changes in estimates across our vast portfolio of contracts can have a significant effect upon our reported sales and operating income in each of our reporting periods. For the three months ended March 31, 2012 and 2011, we recognized favorable operating income adjustments of \$310 million and \$217 million, and unfavorable operating income adjustments of \$45 million and \$73 million, respectively. The largest impact was at Electronic Systems, with Aerospace Systems as the next largest contributor. Also contributing to the net favorable operating income adjustments is the impact of cost reduction initiatives to increase our competitiveness, including reduced pension costs for CAS purposes from a pension plan design change.

The table below reconciles segment operating income to total operating income:

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
Segment operating income	\$789	\$721
Unallocated corporate expenses	(23)	(10)
Net pension adjustment	32	103
Royalty income adjustment	(2)	(3)
Total operating income	\$796	\$811

***Segment Operating Income***

Segment operating income for the three months ended March 31, 2012, increased \$68 million, or 9 percent, as compared with the same period in 2011. Segment operating margin rate was 12.7 percent and 10.7 percent for the three months ended March 31, 2012 and 2011, respectively. Performance improvements at Electronic Systems and Information Systems more than offset the reduction in segment operating income resulting from lower sales volume at all four segments and contributed to the rate improvement in 2012.

***Unallocated Corporate Expenses***

Unallocated corporate expenses generally include the portion of corporate expenses not considered allowable or allocable under applicable CAS and FAR rules, and therefore not allocated to the segments, such as management and administration, legal, environmental, certain compensation and retiree benefits, and other expenses. Unallocated corporate expenses for the three months ended March 31, 2012 increased by \$13 million primarily as a result of an overhead rate adjustment recorded in the first quarter of 2011 that reduced unallocated corporate expenses by \$15 million.

***Net Pension Adjustment***

The net pension adjustment reflects the difference between pension expense determined in accordance with GAAP and pension expense allocated to the operating segments determined in accordance with CAS. For the three months ended March 31, 2012 and 2011, the net pension adjustment resulted in income of \$32 million and \$103 million, respectively. The decrease in net pension adjustment for the three months ended March 31, 2012, as compared with the same period in 2011, is primarily due to increased GAAP pension expense resulting from amortization of prior year actuarial losses.

***Royalty Income Adjustment***

Royalty income is included in segment operating income and reclassified to other income for financial reporting purposes.

**Interest Expense**

Interest expense for the three months ended March 31, 2012, decreased \$5 million, as compared with the same period in 2011, primarily due to a lower weighted average interest rate.

**Federal and Foreign Income Tax Expense**

The company's effective tax rate on earnings from continuing operations for the three months ended March 31, 2012, was 33.1 percent, compared with 34.6 percent for the three months ended March 31, 2011. The company's lower effective tax rate in the first quarter of 2012 reflects deductions for current year domestic manufacturing and

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additional deductions from filing amended tax returns for certain open years which generated additional domestic manufacturing benefit, partially offset by the absence of research tax credits, which expired at the end of 2011.

**Cash Provided By Continuing Operations**

For the three months ended March 31, 2012, cash used in continuing operations was \$105 million, as compared with cash provided by continuing operations of \$112 million in the same period in 2011. The decrease of \$217 million reflects higher working capital, principally driven by higher prepaid expenses and other assets, as well as higher income tax payments in the 2012 period.

**SEGMENT OPERATING RESULTS****Basis of Presentation**

We are aligned into four reportable segments: Aerospace Systems, Electronic Systems, Information Systems, and Technical Services. The following sections discuss segment sales and segment operating income by segment. The reconciliation of segment sales to total sales is provided in Note 4 to the condensed consolidated financial statements. The reconciliation of segment operating income to total operating income, as well as a discussion of the reconciling items, is included in the Operating Income section of the Consolidating Operating Results section above. On January 1, 2012, we transferred our missile business (primarily the ICBM program) from the Aerospace Systems segment to our Technical Services segment. The segment sales and segment operating income for the three months ended March 31, 2011, have been recast to reflect the missile business transfer. Sales of \$143 million and segment operating income of \$14 million were transferred from Aerospace Systems to Technical Services for the three months ended March 31, 2011.

**AEROSPACE SYSTEMS****Business Description**

Aerospace Systems, headquartered in Redondo Beach, California, is a leader in the design, development, integration and production of: manned and unmanned aircraft, spacecraft, high-energy laser systems, microelectronics and other systems and subsystems. Aerospace Systems' customers, primarily domestic government agencies, use these systems in many different mission areas, including: intelligence, surveillance and reconnaissance (ISR); communications; battle management; strike operations; electronic warfare; earth observation; space science; and space exploration. The segment consists of four business areas: Military Aircraft Systems; Unmanned Systems; Space Systems; and Advanced Programs & Technology.

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
Sales	\$2,383	\$2,593
Operating income	279	287
<i>Operating margin rate</i>	11.7%	11.1%

**Sales**

Aerospace Systems sales for the three months ended March 31, 2012, decreased \$210 million, or 8 percent, as compared with the same period in 2011. The decrease is primarily due to lower sales at Military Aircraft Systems of \$146 million and at Space Systems of \$93 million, partially offset by higher sales at Unmanned Systems. The Military Aircraft Systems decrease is primarily related to the F-35 program, which transitioned to the units-of-delivery revenue recognition method beginning with low rate initial production (LRIP) lot 5 in the second half of 2011. This transition resulted in inventorying the costs incurred until units are delivered, whereas in 2011, sales were recognized as costs were incurred under the previous LRIP lots. Further driving the decrease at Military Aircraft Systems was lower volume on the Joint Surveillance Target Attack Radar System (Joint STARS); and decreased deliveries on the F/A-18 program; partially offset by higher volume due to ramping up on the E-2D LRIP 3 and 4 contracts. The decrease at Space Systems is primarily due to lower volume on restricted programs and the termination of a weather satellite program.

**Operating Income**

Operating income at Aerospace Systems for the three months ended March 31, 2012, decreased \$8 million, or 3 percent, as compared with the same period in 2011, and operating margin rate was 11.7 percent, up from 11.1 percent as compared with the same period in 2011. The increase in operating margin rate reflects performance improvements across several programs, none of which were individually significant, and the impact of cost reduction initiatives taken to enhance our competitiveness.

**NORTHROP GRUMMAN CORPORATION****ELECTRONIC SYSTEMS****Business Description**

Electronic Systems, headquartered in Linthicum, Maryland, is a leader in the design, development, manufacture, and support of solutions for sensing, understanding, anticipating, and controlling the operating environment for our global military, civil, and commercial customers and their operations. Electronic Systems provides a variety of defense electronics and systems, airborne fire control radars, situational awareness systems, early warning systems, airspace management systems, navigation systems, communications systems, marine systems, space systems, and logistics services. The segment consists of four business areas: Intelligence, Surveillance, Reconnaissance & Targeting Systems; Land & Self Protection Systems; Naval & Marine Systems; and Navigation Systems.

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
Sales	\$1,724	\$1,808
Operating income	304	237
<i>Operating margin rate</i>	<i>17.6%</i>	<i>13.1%</i>

**Sales**

Electronic Systems sales for the three months ended March 31, 2012, decreased \$84 million, or 5 percent, as compared with the same period in 2011. The decrease is primarily due to lower sales at Intelligence, Surveillance, Reconnaissance & Targeting Systems of \$30 million and Navigation Systems of \$35 million. The lower sales at Intelligence, Surveillance, Reconnaissance & Targeting Systems is primarily due to lower volume of \$90 million on the postal automation contracts, partially offset by higher volume in space systems programs. The lower sales at Navigation Systems is primarily due to lower volume caused by timing of system deliveries due to the global economic slowdown.

**Operating Income**

Operating income at Electronic Systems for the three months ended March 31, 2012, increased \$67 million, or 28 percent, as compared with the same period in 2011, and segment operating margin rate increased to 17.6 percent from 13.1 percent. The higher operating income and operating margin rate are primarily the result of an increased amount of performance improvements (an increase of approximately \$60 million over the prior period) driven by larger than usual adjustments on a few programs at Intelligence, Surveillance, Reconnaissance & Targeting Systems. These adjustments result from program performance from a number of factors including mitigation of contract risks and cost reduction initiatives, which were partially offset by lower sales volume.

**INFORMATION SYSTEMS****Business Description**

Information Systems, headquartered in McLean, Virginia, is a leading global provider of advanced solutions for the Department of Defense, intelligence, federal civilian, state and local agencies, and international customers. Products and services are focused on the fields of command, control, communications, computers and intelligence; cybersecurity; air and missile defense; airborne reconnaissance; intelligence processing; decision support systems; information technology; and systems engineering and integration. The segment consists of three business areas: Defense Systems; Intelligence Systems; and Civil Systems.

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
Sales	\$1,844	\$2,025
Operating income	205	194
<i>Operating margin rate</i>	<i>11.1%</i>	<i>9.6%</i>

**Sales**

Information Systems sales for the three months ended March 31, 2012, decreased \$181 million, or 9 percent, as compared with the same period in 2011. The decrease is driven by lower sales in all business areas. The majority of the decrease in sales was from lower sales of \$97 million at Defense Systems, primarily due to lower funding on existing programs due to the in-theater troop draw downs, a program termination, and program completions. Sales at

**NORTHROP GRUMMAN CORPORATION**

Civil Systems were down primarily due to the sale of the County of San Diego contract, which reduced sales by \$30 million as compared with the same period in 2011, and completion of the Enterprise Network Management contract. Lower sales at Intelligence Systems were primarily due to lower volume on the Counter Narco-Terrorism Programs and Operations (CNTPO) contract and lower volume on restricted programs.

**Operating Income**

Operating income at Information Systems for the three months ended March 31, 2012, increased \$11 million, or 6 percent, as compared with the same period in 2011, and operating margin rate increased to 11.1 percent from 9.6 percent. The higher operating income and operating margin rate are primarily due to performance improvements at Civil Systems, as well as cost reductions resulting from affordability initiatives, partially offset by lower volume across the three business areas.

**TECHNICAL SERVICES****Business Description**

Technical Services, headquartered in Herndon, Virginia, is a leading provider of innovative and affordable logistics, modernization, and sustainment support, and also provides a wide array of other high technology services, including space, missile defense, nuclear security, training and simulation. The segment consists of three business areas: Defense and Government Services; Training Solutions; and Integrated Logistics and Modernization.

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
Sales	\$750	\$831
Operating income	70	68
Operating margin rate	9.3%	8.2%

**Sales**

Technical Services sales for the three months ended March 31, 2012, decreased \$81 million, or 10 percent, as compared with the same period in 2011. The decrease is due to lower sales at Defense and Government Services and at Integrated Logistics and Modernization. The decrease at Defense and Government Services of \$53 million was primarily due to lower volume on the ICBM program and lower volume across various programs resulting from portfolio restructuring efforts. The lower sales at Integrated Logistics and Modernization was primarily due to lower volume on the KC-10 and intercompany CNTPO programs.

**Operating Income**

Operating income at Technical Services for the three months ended March 31, 2012 increased \$2 million, or 3 percent, as compared with the same period in 2011, and operating margin rate increased to 9.3 percent from 8.2 percent. The higher operating income and operating margin rate are primarily due to improved performance across a number of programs, none of which were individually significant, partially offset by lower sales volume as described above.

**PRODUCT AND SERVICE ANALYSIS**

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
Product sales	\$3,341	\$3,863
Product costs	2,527	3,003
<i>% of product sales</i>	75.6%	77.7%
Service sales	2,857	2,871
Service costs	2,314	2,352
<i>% of service sales</i>	81.0%	81.9%

As of December 31, 2011, the company revised its reporting of intersegment operating costs and expenses. See Note 4 to the condensed consolidated financial statements.

**NORTHROP GRUMMAN CORPORATION**

Product costs as a percentage of product sales decreased 210 basis points for the three months ended March 31, 2012, as compared with the same period in 2011. The reduction in costs as a percentage of product sales relates to the performance improvements described in the Aerospace Systems and Electronic Systems captions under the Segment Operating Results section above, substantially all of which relate to product sales.

Service costs as a percentage of service sales decreased 90 basis points for the three months ended March 31, 2012, as compared with the same period in 2011. The reduction in costs relate to the performance improvements described in the Information Systems and Technical Services captions under the Segment Operating Results section above, substantially all of which relate to service sales.

The following table presents sales and operating costs and expenses by segment between product and service:

<i>\$ in millions</i>	Three Months Ended March 31			
	2012		2011	
<b>Segment Information:</b>	<b>Sales</b>	<b>Operating Costs and Expenses</b>	Sales	Operating Costs and Expenses
<b>Aerospace Systems</b>				
Product	\$2,074	\$1,843	\$2,280	\$2,041
Service	309	261	313	265
<b>Electronic Systems</b>				
Product	1,348	1,093	1,481	1,281
Service	376	327	327	290
<b>Information Systems</b>				
Product	70	61	114	104
Service	1,774	1,578	1,911	1,727
<b>Technical Services</b>				
Product	5	4	146	132
Service	745	676	685	631
<b>Segment Totals</b>				
Total Product	\$3,497	\$3,001	\$4,021	\$3,558
Total Service	3,204	2,842	3,236	2,913
Intersegment eliminations	(503)	(434)	(523)	(458)
<b>Total segment<sup>(1)</sup></b>	<b>\$6,198</b>	<b>\$5,409</b>	<b>\$6,734</b>	<b>\$6,013</b>

(1) For the three months ended March 31, 2012, sales of \$6.2 billion less segment operating costs and expenses of \$5.4 billion equals segment operating income of \$789 million. The reconciliation of segment operating income to total operating income, as well as a discussion of the reconciling items, is included in the Operating Income section of the Consolidated Operating Results.

*Segment Product Sales and Segment Product Costs*

Segment product sales for the three months ended March 31, 2012, decreased \$524 million, as compared with the same period in 2011, primarily due to lower sales volume at the Aerospace Systems and Electronic Systems segments, as well as the change in classification of the ICBM program at Technical Services as that contract has transitioned from modernization to predominantly sustainment services. The reduction in product sales at Aerospace Systems and Electronic Systems is the result of the items described in the Segment Operating Results section above.

Segment product costs for the three months ended March 31, 2012, decreased by \$557 million, as compared to the same period in 2011. The decrease in segment product costs drove the overall decline in product sales as discussed above. The majority of the decrease in product costs was at Aerospace Systems, a reduction of \$198 million, with the next largest decrease being at Electronic Systems, a reduction of \$188 million. The Aerospace Systems decrease was primarily in the Military Aircraft business area and lower costs in the Space Systems business area. The Military Aircraft decrease primarily related to the F-35 program, which transitioned to the units-of-delivery revenue recognition method beginning with LRIP lot 5 in the second half of 2011. This transition resulted in inventorying the costs incurred until units are delivered, whereas in 2011, sales were recognized as costs were incurred under the

**NORTHROP GRUMMAN CORPORATION**

previous LRIP lots. No other single contract was a significant driver. The Electronic Systems decrease was mainly at Information, Surveillance, Reconnaissance, and Targeting Systems, with the completion of the domestic postal automation contract representing the only contract contributing significantly to the decrease.

*Segment Service Sales and Segment Service Costs*

Segment service sales for the three months ended March 31, 2012, decreased \$32 million, as compared with the same period in 2011, primarily due to lower sales volume at the Information Systems, partially offset by the transitioning of the ICBM program from product to service at Technical Services and an increase at Electronic Systems. The net reduction in service sales is primarily the result of the items described under the Information Systems and Technical Services captions of the Segment Operating Results section above, substantially all of which relate to service sales.

Segment service costs for the three months ended March 31, 2012, decreased \$71 million, as compared to the same period in 2011. The decrease in segment service costs drove the overall decline in service sales as discussed above. Decreases in segment service costs of \$149 million at Information Systems partially offset by slight increases at Technical Services and Electronic Systems. The Information Systems decrease was primarily in the Civil Systems and Defense Systems business areas. No contract or program contributed significantly to the decrease.

**BACKLOG****Definition**

Total backlog includes both funded backlog (firm orders for which funding is contractually obligated by the customer) and unfunded backlog (firm orders for which, as of the reporting date, funding is not contractually obligated by the customer). Unfunded backlog excludes unexercised contract options and unfunded IDIQ orders (except for authorized task orders, which are included up to the authorized value). For multi-year service contracts with non-federal government customers having no stated contract values, backlog includes only the amounts committed by the customer. Backlog is converted into sales as work is performed or deliveries are made and is adjusted routinely to represent the amount expected to result in future revenues.

On January 1, 2012, the company transferred its missile business, previously reported in Aerospace Systems to Technical Services. As a result of this realignment, \$599 million of backlog was transferred from Aerospace Systems to Technical Services. Total backlog as of December 31, 2011, reflects this transfer.

Backlog consisted of the following at March 31, 2012 and December 31, 2011:

<i>\$ in millions</i>	<b>March 31, 2012</b>			December 31, 2011
	<b>Funded</b>	<b>Unfunded</b>	<b>Total Backlog</b>	Total Backlog
Aerospace Systems	<b>\$10,889</b>	<b>\$ 7,369</b>	<b>\$18,258</b>	\$18,638
Electronic Systems	<b>7,400</b>	<b>1,672</b>	<b>9,072</b>	9,123
Information Systems	<b>4,265</b>	<b>4,571</b>	<b>8,836</b>	8,563
Technical Services	<b>2,486</b>	<b>482</b>	<b>2,968</b>	3,191
<b>Total backlog</b>	<b>\$25,040</b>	<b>\$14,094</b>	<b>\$39,134</b>	\$39,515

**New Awards**

The estimated value of contract awards booked during the three months ended March 31, 2012, was \$5.8 billion. Significant new awards during this period include \$919 million for the E2-D Advanced Hawkeye program, \$289 million for the F-35 program, \$332 million for the LAIRCM acquisition follow-on contract (LAF), and \$220 million for the Joint National Integration Center Research and Development Contract.

**LIQUIDITY AND CAPITAL RESOURCES**

We endeavor to ensure the most efficient conversion of operating results into cash for deployment in growing our business and maximizing shareholder value. We actively manage our capital resources through working capital improvements, capital expenditures, strategic business acquisitions and divestitures, debt issuance and repayment, required and voluntary pension contributions, and returning cash to our shareholders through dividend payments and repurchases of common stock. In addition to our cash position, we use various financial measures to assist in capital deployment decision-making, including net cash provided by operations, free cash flow, net debt-to-equity, and net debt-to-capital. We believe these measures are useful to investors in assessing our financial performance and

**NORTHROP GRUMMAN CORPORATION**

condition.

The table below summarizes key components of cash flow provided by operating activities from continuing operations:

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
Net earnings	\$506	\$530
Net earnings from discontinued operations	—	(34)
Non-cash items <sup>(1)</sup>	119	164
Retiree benefit funding less than expense	77	34
Trade working capital change	(807)	(582)
Cash (used in) provided by continuing operations	(\$105)	\$112

(1) Includes depreciation and amortization, stock-based compensation expense, and deferred income taxes.

**Free cash flow from continuing operations**

Free cash flow from continuing operations is defined as cash provided by operating activities from continuing operations less capital expenditures. Free cash flow is a key factor in our planning for and consideration of strategic acquisitions, stock repurchases and the payment of dividends.

Free cash flow from continuing operations is not a measure of financial performance under GAAP, and may not be defined and calculated by other companies in the same manner. This measure should not be considered in isolation, as a measure of residual cash flow available for discretionary purposes, or as an alternative to operating results presented in accordance with GAAP as indicators of performance.

Cash generated from continuing operations, supplemented by borrowings under credit facilities and/or in the capital markets, if needed, is expected to be sufficient to service debt and contractual obligations, finance capital expenditures, fund required and voluntary pension contributions, continue acquisition of shares under our share repurchase program, and continue paying dividends to our shareholders for at least the next 12 months.

The table below reconciles cash provided by continuing operations to free cash flow from continuing operations:

<i>\$ in millions</i>	Three Months Ended March 31	
	2012	2011
Cash (used in) provided by continuing operations	(\$105)	\$112
Less:		
Capital expenditures	(81)	(123)
Free cash flow from continuing operations	(\$186)	(\$ 11)

**Cash Flows**

The following is a discussion of our major operating, investing and financing cash flows from continuing operations for the three months ended March 31, 2012 and 2011, as classified in the condensed consolidated statements of cash flows in Part I, Item 1.

**Operating Activities**

For the three months ended March 31, 2012, cash used in operating activities from continuing operations was \$105 million, as compared with cash provided by operating activities from continuing operations of \$112 million in the same period in 2011. The decrease of \$217 million reflects higher working capital, principally driven by higher prepaid expenses and other assets, as well as higher income tax payments in the 2012 period.

**Investing Activities**

Net cash provided by investing activities from continuing operations for the three months ended March 31, 2012, was \$169 million, as compared with \$1.3 billion in the same period of 2011. The \$1.2 billion decrease in net cash provided by investing activities from continuing operations is primarily due to the \$1.4 billion contribution received from the spin-off of the shipbuilding business in 2011.

## **NORTHROP GRUMMAN CORPORATION**

### **Financing Activities**

Net cash used in financing activities for the three months ended March 31, 2012, was \$384 million, as compared with \$843 million in the same period of 2011. The \$459 million decrease in net cash used in financing activities is primarily due to debt repayments of \$750 million in the first quarter 2011, offset by higher common stock repurchases in 2012.

### **CRITICAL ACCOUNTING POLICIES, ESTIMATES, AND JUDGMENTS**

There have been no material changes to our critical accounting policies, estimates, or judgments from those discussed in our 2011 Form 10-K.

### **ACCOUNTING STANDARDS UPDATES**

Accounting standards updates effective after March 31, 2012, are not expected to have a material effect on the company's consolidated financial position or results of operations.

### **FORWARD-LOOKING STATEMENTS AND PROJECTIONS**

This Form 10-Q and the information we are incorporating by reference contain statements, other than statements of historical fact, that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expect," "intend," "may," "could," "plan," "project," "forecast," "believe," "estimate," "outlook," "anticipate," "trends" and similar expressions generally identify these forward-looking statements. Forward-looking statements are based upon assumptions, expectations, plans and projections that we believe to be reasonable when made. These statements are not guarantees of future performance and inherently involve a wide range of risks and uncertainties that are difficult to predict. Specific factors that could cause actual results to differ materially from those expressed or implied in the forward-looking statements include, but are not limited to, those identified under Risk Factors in our Form 10-K for the year ended December 31, 2011, and other important factors disclosed in this report and from time to time in our other filings with the SEC.

You are urged to consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. The forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

### **CONTRACTUAL OBLIGATIONS**

There have been no material changes to our contractual obligations from those discussed in our 2011 Form 10-K.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes to our market risks from those discussed in our 2011 Form 10-K.

### **Item 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

Our principal executive officer (Chairman, Chief Executive Officer and President) and principal financial officer (Corporate Vice President and Chief Financial Officer) have evaluated the company's disclosure controls and procedures (as defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities and Exchange Act of 1934, as amended) and have concluded that, as of March 31, 2012, these controls and procedures were effective.

#### **Changes in Internal Controls over Financial Reporting**

During the three months ended March 31, 2012, no change occurred in our internal controls over financial reporting that materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

## NORTHROP GRUMMAN CORPORATION

## PART II. OTHER INFORMATION

## Item 1. Legal Proceedings

We have provided information about certain legal proceedings in which we are involved in Note 7 to the condensed consolidated financial statements in Part I, Item 1 and in our 2011 Annual Report on Form 10-K.

We are a party to various investigations, lawsuits, claims and other legal proceedings, including government investigations and claims, that arise in the ordinary course of our business. These types of matters could result in fines, penalties, compensatory or treble damages or non-monetary relief. U.S. Government regulations also provide that certain allegations against a contractor may lead to suspension or debarment from future U.S. Government contracts or the loss of export privileges for the company or one or more of its components. Suspension or debarment could have a material adverse effect on the company because of the company's reliance on government contracts and authorizations. The nature of legal proceedings is such that we cannot assure the outcome of any particular matter. However, based on information available to us to date and other than as noted in Note 7 to the condensed consolidated financial statements, we do not believe that the outcome of any matter pending against the Company, is likely to have a material adverse effect on the company's consolidated financial position as of March 31, 2012, or its annual results of operations or cash flows. For further information on the risks we face from existing and future investigations, lawsuits, claims and other legal proceedings, please see Risk Factors in Part I, Item 1A, of our 2011 Annual Report on Form 10-K.

## Item 1A. Risk Factors

There are no material changes to the risk factors previously disclosed in our 2011 Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

*Purchases of Equity Securities* – The table below summarizes our repurchases of common stock during the three months ended March 31, 2012:

Period	Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share <sup>(2)</sup>	Numbers of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased under the Plans or Programs (\$ in millions)
January 1 through January 31, 2012	1,358,000	\$59.01	1,358,000	\$1,622
February 1 through February 29, 2012	1,105,900	59.29	1,105,900	1,557
March 1 through March 31, 2012	1,897,600	60.60	1,897,600	1,442
<b>Total</b>	<b>4,361,500</b>	<b>\$59.77</b>	<b>4,361,500</b>	<b>\$1,442</b>

(1) On June 16, 2010, the company's board of directors authorized a share repurchase program of up to \$2.0 billion of the company's common stock. On April 25, 2011, after the company had repurchased shares totaling \$245 million, the company's board of directors authorized an increase to the remaining share repurchase authorization to \$4.0 billion. As of March 31, 2012, the company had \$1.4 billion remaining under this authorization for share repurchases.

(2) Calculated as the average price paid per share under the respective repurchase program, including commissions paid.

Additional share repurchases take place at management's discretion or under pre-established non-discretionary programs from time to time, depending on market conditions, in the open market, and in privately negotiated transactions. The company retires its common stock upon repurchase and has not made any purchases of common stock other than in connection with these publicly announced repurchase program authorizations. In connection with the spin-off of HII, the company obtained a Private Letter Ruling from the Internal Revenue Service that generally limits our share repurchases to approximately 88 million shares within two years of the spin-off. The limitation expires on March 31, 2013. Due to share repurchases subsequent to the spin-off, the remaining number of shares that we can repurchase under this share repurchase limitation as of March 31, 2012, was approximately 43 million shares. Cash available from unusual transactions, such as the disposition of significant assets, should they arise, can be used to repurchase additional shares.

**NORTHROP GRUMMAN CORPORATION**

**Item 3. Defaults Upon Senior Securities**

No information is required in response to this item.

**Item 4. Mine Safety Disclosures**

No information is required in response to this item.

**Item 5. Other Information**

No information is required in response to this item.

**Item 6. Exhibits**

2.1 Agreement and Plan of Merger among Titan II, Inc. (formerly Northrop Grumman Corporation), Northrop Grumman Corporation (formerly New P, Inc.) and Titan Merger Sub Inc., dated March 29, 2011 (incorporated by reference to Exhibit 10.1 to Form 8-K dated March 29, 2011 and filed April 4, 2011)

2.2 Separation and Distribution Agreement dated as of March 29, 2011, among Titan II, Inc. (formerly Northrop Grumman Corporation), Northrop Grumman Corporation (formerly New P, Inc.), Huntington Ingalls Industries, Inc., Northrop Grumman Shipbuilding, Inc. and Northrop Grumman Systems Corporation (incorporated by reference to Exhibit 10.2 to Form 8-K dated March 29, 2011 and filed April 4, 2011)

+10.1 Grant Certificate Specifying the Terms and Conditions Applicable to 2012 Restricted Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.1 to Form 8-K dated February 17, 2012)

+10.2 Grant Certificate Specifying the Terms and Conditions Applicable to 2012 Restricted Performance Stock Rights Granted Under the 2011 Long-Term Incentive Stock Plan (incorporated by reference to Exhibit 10.2 to Form 8-K dated February 17, 2012)

\*+10.3 Form of Indemnification Agreement between Northrop Grumman Corporation and its directors and executive officers

\*12(a) Computation of Ratio of Earnings to Fixed Charges

\* 15 Letter from Independent Registered Public Accounting Firm

\*31.1 Rule 13a-14(a)/15d-14(a) Certification of Wesley G. Bush (Section 302 of the Sarbanes-Oxley Act of 2002)

\*31.2 Rule 13a-14(a)/15d-14(a) Certification of James F. Palmer (Section 302 of the Sarbanes-Oxley Act of 2002)

\*\*32.1 Certification of Wesley G. Bush pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\*\*32.2 Certification of James F. Palmer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

\*101 Northrop Grumman Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, formatted in XBRL (Extensible Business Reporting Language); (i) the Condensed Consolidated Statements of Earnings and Comprehensive Income, (ii) Condensed Consolidated Statements of Financial Position, (iii) Condensed Consolidated Statements of Cash Flows, (iv) Condensed Consolidated Statements of Changes in Shareholders' Equity, and (v) Notes to Condensed Consolidated Financial Statements

+ Management contract or compensatory plan or arrangement

\* Filed with this report

\*\* Furnished with this report

**NORTHROP GRUMMAN CORPORATION**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NORTHROP GRUMMAN CORPORATION  
(Registrant)

By:

**/s/ Kenneth L. Bedingfield**

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Kenneth L. Bedingfield  
Corporate Vice President, Controller and  
Chief Accounting Officer  
(Principal Accounting Officer)

Date: April 24, 2012



**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Northrop Grumman Corporation (the “company”) on Form 10-Q for the period ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, James F. Palmer, Corporate Vice President and Chief Financial Officer of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: April 24, 2012

**/s/ James F. Palmer**

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James F. Palmer  
Corporate Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Northrop Grumman Corporation (the “company”) on Form 10-Q for the period ended March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Wesley G. Bush, Chairman, Chief Executive Officer and President of the company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

Date: April 24, 2012

**/s/ Wesley G. Bush**

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Wesley G. Bush  
Chairman, Chief Executive Officer and President

**CERTIFICATION PURSUANT TO  
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, James F. Palmer, certify that:

1. I have reviewed this report on Form 10-Q of Northrop Grumman Corporation (“company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 24, 2012

**/s/ James F. Palmer**

James F. Palmer

Corporate Vice President and Chief Financial Officer

**Form of  
[AMENDED AND RESTATED] INDEMNIFICATION AGREEMENT**

This Agreement, dated as of the \_\_\_\_ day of \_\_\_\_\_, 20\_\_ between Northrop Grumman Corporation, a Delaware corporation (the "Corporation"), and \_\_\_\_\_ ("Indemnitee").

WHEREAS, it has come to the attention of the Board of Directors of the Corporation (the "Board") that in certain circumstances highly competent persons have become more reluctant to serve publicly-held corporations as directors, officers or in other capacities unless they are provided with adequate protection from the risk of liability due to claims and actions against them arising out of their service to and activities on behalf of such corporations; and

WHEREAS, it has also come to the attention of the Board that, in this regard, the difficulty of maintaining adequate liability insurance and the uncertainties related to indemnification for directors and officers have increased the difficulty of attracting and retaining such highly competent persons; and

WHEREAS, the Board has determined that an increased difficulty in attracting and retaining such highly competent persons is detrimental to the best interests of the Corporation and its stockholders and that persons serving the Corporation should be assured they will have adequate protection from certain liabilities; and

WHEREAS, it is reasonable, prudent and necessary for the Corporation to obligate itself contractually to indemnify such persons to the fullest extent permitted by applicable law, so that such persons will serve or continue to serve the Corporation, free from undue concern that they will not be adequately indemnified; and

WHEREAS, this Agreement is a supplement to and in furtherance of any rights granted under the Restated Certificate of Incorporation of the Corporation, or Article V of the Restated Bylaws of the Corporation, and any resolutions adopted pursuant thereto, and shall not be deemed to be a substitute therefor nor to diminish or abrogate any rights of Indemnitee thereunder; and

[WHEREAS, Indemnitee and the Corporation are parties to that certain Indemnification Agreement dated \_\_\_\_\_ (the "Existing Indemnification Agreement") and Indemnitee and the Corporation wish to amend and restate the Existing Indemnification Agreement to clarify the Corporation's obligations under the Existing Indemnification Agreement and to provide for certain additional rights granted or to be granted to new directors and officers of the Corporation; and]

WHEREAS, Indemnitee is willing to serve the Corporation in the capacity or capacities in which he or she serves, continue so to serve and, if appropriate, to take on additional service for or on behalf of the Corporation on the condition that Indemnitee be indemnified according to

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the terms of this Agreement.

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Corporation and Indemnitee do hereby covenant and agree as follows:

Section 1. Definitions. For purposes of this Agreement:

(a) The term “Change in Control” means a change in control of the Corporation, occurring after the Effective Date, which would be required to be reported in response to Item 6(e) of Schedule 14A under Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended (the “Act”), whether or not the Corporation is then subject to such reporting requirement. Without limiting the generality of the foregoing, a Change in Control shall be deemed to have occurred if, after the Effective Date: (i) any “person” (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Corporation representing 20% or more of the combined voting power of the Corporation’s then outstanding securities without the prior approval of at least two-thirds of the members of the Board in office immediately prior to such person attaining such percentage interest; (ii) the Corporation is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which (A) members of the Board in office immediately prior to such transaction or event constitute less than a majority of the Board thereafter or (B) the voting securities of the Corporation outstanding immediately prior to such transaction do not continue to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 51% of the combined voting power of the voting securities of the surviving entity outstanding immediately after such transaction with the power to elect at least a majority of the board of directors or other governing body of such surviving entity; (iii) an involuntary case or other proceeding shall be commenced against the Corporation seeking liquidation, reorganization or other relief with respect to its debts under any federal, state or foreign bankruptcy, insolvency, or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and, such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 90 days, or an order for relief shall be entered against the Corporation under any such bankruptcy laws as now or hereafter in effect or (iv) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board (including for this purpose any new director whose election or nomination for election by the Corporation’s stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute at least a majority of the Board.

(b) The term “Corporate Status” means the status of a person as a current or former director, officer, employee, agent or fiduciary of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the request of the Corporation, including as a deemed fiduciary.

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(c) The term “Disinterested Director” means a director of the Corporation who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

(d) The term “Effective Date” means as of \_\_\_\_\_, 20\_\_.

(e) The term “Expenses” shall be broadly construed and shall include all reasonable attorneys’ fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, communication charges, postage, delivery service fees, and all other customary direct or indirect disbursements or expenses in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding or a proceeding to enforce Indemnitee’s rights under this Agreement. The term “Expenses” shall also include Expenses incurred in connection with any appeal resulting from any Proceeding, including without limitation, the premium, security for, and other costs relating to any cost bond, supersedeas bond or other appeal bond or its equivalent. The parties agree that, to the fullest extent permitted by law, for the purposes of any advancement of Expenses for which Indemnitee has made written demand to the Corporation in accordance with this Agreement, all Expenses included in such demand that are certified by affidavit of Indemnitee’s counsel as being prudent and appropriate in the good faith judgment of such counsel shall be presumed conclusively to be reasonable Expenses. To the fullest extent permitted by law, the Corporation agrees that, in any proceeding for an advancement of Expenses, it will not assert or make any claim that any Expenses (including without limitation attorneys’ fees and expert witness or consultant fees) incurred by or on behalf of Indemnitee are not reasonable if counsel for Indemnitee certifies by affidavit his or her belief that such Expenses were prudent and appropriate in the good faith judgment of such counsel; provided that, following the final disposition of the Proceeding for which Expenses are advanced, the Corporation may seek to recover any Expenses that it establishes are not reasonable in an action brought to enforce the undertaking granted by Indemnitee pursuant to Section 9. The term “Expenses” shall not include the amount of judgments, fines or penalties against Indemnitee or amounts paid in settlement in connection with such matters.

(f) The term “Independent Counsel” means an attorney, a law firm, or a member of a law firm, who (or which) is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Corporation, any entity or enterprise controlled by the Corporation, or Indemnitee or any entity controlled by Indemnitee, in any other matter material to either such party; or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term “Independent Counsel” shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Corporation or Indemnitee in an action to determine Indemnitee’s rights under this Agreement.

(g) The term “Proceeding” means any threatened, pending or completed action, suit, or proceeding, whether civil, criminal, administrative or investigative, and whether formal or informal, except one initiated by an Indemnitee pursuant to Section 12 of this Agreement to

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enforce Indemnitee's rights under this Agreement. Without limiting the foregoing, the term "Proceeding" shall include any arbitration, alternate dispute resolution mechanism, investigation, administrative hearing, subpoena or other response to process served, request for information from government agencies or other third parties, internal investigation, any other proceeding or other process that Indemnitee in good faith believes might lead to the institution of a Proceeding.

(h) The term "Rating Event" means the Corporation's ["issuer credit rating" from Standard & Poor's Financial Services LLC] is or is lowered to [BBB] or lower on any day within the five-year period after the occurrence of a Change in Control; provided, that if [Standard & Poor's Financial Services LLC] ceases to provide an [issuer credit rating] for the Corporation, the Corporation shall select a comparable statistical rating organization and rating level as a replacement for purposes of this definition.

(i) References to "fines" shall include any excise tax assessed with respect to any employee benefit plan; references to "serving at the request of the Corporation" shall include services by such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries; and a person who acted in good faith and in a manner such person reasonably believed to be in the best interests of the participants and beneficiaries of an employee benefit plan shall be deemed to have acted in a manner "not opposed to the best interests of the Corporation" as referred to in this Agreement.

Section 2. Services by Indemnitee. Indemnitee agrees to serve as an **Officer** of the Corporation. Indemnitee may at any time and for any reason resign from any such position (subject to any other contractual obligation or any obligation imposed by operation of law) in which event the Corporation shall have no obligations under this Agreement to continue Indemnitee in such position. This Agreement shall not be deemed an employment contract between the Corporation (or any of its subsidiaries or any other entity or enterprise) and Indemnitee. The foregoing notwithstanding, this Agreement shall continue in force after Indemnitee has ceased to serve in the aforementioned capacity with the Corporation in accordance with the terms of this Agreement.

Section 3. Indemnification. The Corporation shall indemnify, and advance Expenses to, Indemnitee to the fullest extent permitted by applicable law if Indemnitee is a party to, or is threatened to be made a party to, any Proceeding (including a Proceeding by or in the right of the Corporation to procure a judgment in its favor) by reason of Indemnitee's Corporate Status against all Expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee in connection with such Proceeding. For purposes of this Section 3, the meaning of the phrase "to the fullest extent permitted by applicable law" shall include, but not be limited to the fullest extent authorized or permitted by any amendments to or replacements of the Delaware General Corporation Law (the "DGCL") that increase the extent to which a corporation may indemnify its officers and directors (including amendments to or replacements of any provisions that authorize or contemplate additional indemnification by agreement). For the avoidance of doubt, if Indemnitee becomes a party to, or is otherwise involved in, any Proceeding initiated by the Corporation or any governmental or regulatory body to require

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Indemnitee to repay an advancement of expenses from the Corporation or to obtain a determination from a judicial or regulatory body that indemnification is prohibited by applicable law, the Corporation shall, to the fullest extent permitted by law, indemnify Indemnitee for the Expenses Indemnitee incurs in such suit and advance Expenses to Indemnitee prior to the final disposition of such suit.

Section 4. Proceedings Other Than Proceedings by or in the Right of the Corporation. Without limiting the scope of Section 3, Indemnitee shall be entitled to the rights of indemnification provided in this Section if, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be made, a party to any Proceeding, other than a Proceeding by or in the right of the Corporation. Pursuant to this Section, Indemnitee shall be indemnified against all Expenses, judgments, penalties, fines, other monetary remedies and amounts paid in settlement incurred by Indemnitee or on Indemnitee's behalf in connection with any such Proceeding or any claim, issue or matter therein, if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal Proceeding, had no reasonable cause to believe Indemnitee's conduct was unlawful.

Section 5. Proceedings by or in the Right of the Corporation. Without limiting the scope of Section 3, Indemnitee shall be entitled to the rights of indemnification provided in this Section if, by reason of Indemnitee's Corporate Status, Indemnitee is, or is threatened to be made, a party to any Proceeding brought by or in the right of the Corporation to procure a judgment in its favor. Pursuant to this Section, Indemnitee shall be indemnified against Expenses incurred by Indemnitee or on Indemnitee's behalf in connection with any such Proceeding if Indemnitee acted in good faith and in a manner Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation. Notwithstanding the foregoing, no indemnification against such Expenses shall be made in respect of any claim, issue or matter in any such Proceeding as to which Indemnitee shall have been adjudged to be liable to the Corporation if applicable law prohibits such indemnification; provided, however, that if applicable law so permits, indemnification against Expenses shall nevertheless be made by the Corporation in such event if, and only to the extent that, the Court of Chancery of the State of Delaware (the "Delaware Court"), or the court in which such Proceeding shall have been brought or is pending, shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, Indemnitee is fairly and reasonably entitled to indemnification for such Expenses as the Delaware Court or such other court shall deem proper.

Section 6. Contribution. To the fullest extent permitted by applicable law, if the indemnification provided for in this Agreement is unavailable to Indemnitee for any reason whatsoever, the Corporation, in lieu of indemnifying Indemnitee, shall contribute to the amount incurred by Indemnitee, whether for Expenses, judgments, fines, penalties, other monetary remedies, amounts paid or to be paid in settlement in connection with any claim relating to a Proceeding, in such proportion as is deemed fair and reasonable in light of all of the circumstances of such Proceeding in order to reflect (i) the relative benefits received by the Corporation and Indemnitee as a result of the events or transactions giving rise to such

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Proceeding; and/or (ii) the relative fault of the Corporation (and its directors, officers, employees and agents) and Indemnitee in connection with such events or transactions.

Section 7. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement (other than Section 17), to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a party to or a participant in, and is successful, on the merits or otherwise, in any Proceeding, or in defense of any Claim, issue or matter therein, Indemnitee shall be indemnified by the Corporation against all Expenses incurred by Indemnitee or on Indemnitee's behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Corporation shall indemnify Indemnitee against all Expenses incurred by Indemnitee or on Indemnitee's behalf in connection with each successfully resolved claim, issue or matter. For the purposes of this Section and without limiting the foregoing, to the fullest extent permitted by law, the termination of any claim, issue or matter in any such Proceeding by dismissal, with or without prejudice, or, in the case of a government or other third-party inquiry, conclusion of such inquiry without formal action, shall be deemed to be a successful result as to such claim, issue or matter.

Section 8. Indemnification for Expenses of a Witness. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of Indemnitee's Corporate Status, a witness in any Proceeding (and is not a party or threatened to be made a party to such Proceeding), Indemnitee shall be indemnified against all Expenses incurred by Indemnitee or on Indemnitee's behalf in connection therewith.

Section 9. Advancement of Expenses. The Corporation shall advance, to the extent not prohibited by applicable law, all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding within ten days after the receipt by the Corporation of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee. Execution of this Agreement shall constitute an undertaking by Indemnitee that Indemnitee undertakes to repay any Expenses advanced if it shall ultimately be determined (by a court of competent jurisdiction in a final judgment not subject to appeal) that Indemnitee is not entitled to be indemnified by the Corporation against such Expenses. Advances shall be unsecured and interest free. Advances shall be made without regard to Indemnitee's ability to repay the Expenses and without regard to Indemnitee's ultimate entitlement to indemnification under the other provisions of this Agreement. The right to advancement under this Agreement shall include (a) advancement for any and all Expenses incurred pursuing an action to enforce the rights of advancement, indemnification or other rights set forth in this Agreement, and (b) Expenses incurred in preparing and forwarding statements to the Corporation to support any claims for advancement under this Agreement. Indemnitee may, in Indemnitee's written request for advancement described below in Section 10, specify whether the Corporation shall (i) pay such Expenses on behalf of Indemnitee, (ii) advance to Indemnitee funds in an amount sufficient to pay such

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Expenses, or (iii) reimburse Indemnitee for such Expenses, and any advancement of Expenses by the Corporation shall be in accordance with such specification by Indemnitee.

Section 10. Procedure for Determination of Entitlement to Indemnification or Contribution.

(a) To obtain indemnification or contribution under this Agreement in connection with any Proceeding, and for the duration thereof, Indemnitee shall submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification or contribution. Without limiting the foregoing sentence, Indemnitee must provide the Corporation with a copy of any summons, citation, subpoena, complaint, indictment, information or other similar document relating to such Proceeding with which Indemnitee is served or otherwise received and which is reasonably requested by the Corporation. The Corporation will be entitled to participate in any Proceeding at its own expense. Indemnitee shall have the right to engage Indemnitee's own counsel in connection with any Proceeding. Indemnitee's counsel shall cooperate reasonably with the Corporation's counsel to minimize the cost of defending claims against the Corporation and Indemnitee. The Secretary of the Corporation shall, promptly upon receipt of any such request for indemnification or contribution, advise the Board in writing that Indemnitee has requested indemnification or contribution.

(b) Upon written request by Indemnitee for indemnification or contribution pursuant to Section 10(a), a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in such case: (i) if a Change in Control shall have occurred, by Independent Counsel (unless Indemnitee shall request that such determination be made by the Corporation, in which case in the manner provided for in clause (ii) or (iii) of this Section 10(b)) in a written opinion to the Board, a copy of which shall be delivered to Indemnitee; (ii) if a Change in Control shall not have occurred, (A) by a majority vote of the Disinterested Directors, even though less than a quorum, or (B) by a committee of Disinterested Directors designated by majority vote of the Disinterested Directors even though less than a quorum, or (C) if there are no Disinterested Directors or the Disinterested Directors so direct, by Independent Counsel in a written opinion to the Board, a copy of which shall be delivered to Indemnitee, as determined by the Board, or (iii) if necessary, as provided in Section 11(b). If it is so determined that Indemnitee is entitled to indemnification or contribution, payment to Indemnitee shall be made within ten days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification or contribution, including without limitation providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Corporation (irrespective of the determination as to Indemnitee's entitlement to indemnification or contribution) and the Corporation hereby

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agrees to indemnify and hold Indemnitee harmless therefrom.

(c) If required, Independent Counsel shall be selected as follows: (i) if a Change in Control shall not have occurred, Independent Counsel shall be selected by the Corporation, and the Corporation shall give written notice to Indemnitee advising Indemnitee of the identity of Independent Counsel so selected; or (ii) if a Change in Control shall have occurred, Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Corporation, in which event (i) shall apply), and Indemnitee shall give written notice to the Corporation advising it of the identity of Independent Counsel so selected. In either event, Indemnitee or the Corporation, as the case may be, may, within ten days after such written notice of selection shall have been given, deliver to the Corporation or to Indemnitee, as the case may be, a written objection to such selection. Such objection may be asserted only on the ground that Independent Counsel so selected does not meet the requirements of "Independent Counsel" as defined in Section 1, and the objection shall set forth with particularity the factual basis of such assertion. If such written objection is made, Independent Counsel so selected may not serve as Independent Counsel unless and until a court has determined that such objection is without merit. If, within ten days after submission by Indemnitee of a written request for indemnification or contribution pursuant to Section 10(a), no Independent Counsel shall have been selected without objection, either the Corporation or Indemnitee may petition the Delaware Court, for resolution of any objection which shall have been made by Indemnitee to the Corporation to the selection of Independent Counsel and/or for appointment as Independent Counsel of a person selected by such court or by such other person as such court shall designate, and the person with respect to whom an objection is so resolved or the person so appointed shall act as Independent Counsel under Section 10(b). The Corporation shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with its actions pursuant to this Agreement, and the Corporation shall pay all reasonable fees and expenses incident to the procedures of this Section 10(c), regardless of the manner in which such Independent Counsel was selected or appointed. The Corporation shall indemnify Independent Counsel against any and all expenses, claims, liabilities and damages arising out of or relating to this Agreement or its engagement pursuant hereto. Upon the due commencement date of any judicial proceeding pursuant to Section 12(a), Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

#### Section 11. Presumptions and Effects of Certain Proceedings.

(a) To the fullest extent permitted by applicable law, in making a determination with respect to entitlement to indemnification hereunder, the person, persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 10(a), and the Corporation shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to the presumption. Neither (i) the failure of the Corporation, any one or more Disinterested Directors (or committees thereof) or of Independent Counsel to have made a determination prior to the commencement of

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any action pursuant to this Agreement that indemnification is proper in the circumstances because Indemnitee has met the applicable standard of conduct, nor (ii) an actual determination by the Corporation, any one or more Disinterested Directors (or committees thereof) or by Independent Counsel that Indemnitee has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that Indemnitee has not met the applicable standard of conduct.

(b) If the person, persons or entity empowered or selected under Section 10 to determine whether Indemnitee is entitled to indemnification shall not have made a determination within 60 days after receipt by the Corporation of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) prohibition of such indemnification under applicable law; provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith require(s) such additional time for the obtaining or evaluating of documentation and/or information relating thereto if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 10(b).

(c) The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnitee to indemnification or create a presumption that Indemnitee did not act in good faith and in a manner which Indemnitee reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal Proceeding, that Indemnitee had reasonable cause to believe that Indemnitee's conduct was unlawful.

(d) The knowledge and/or actions, or failure to act, of any director, officer, agent or employee of the Corporation or any entity or enterprise that Indemnitee is serving at the request of the Corporation shall not be imputed to Indemnitee for purposes of determining the right to indemnification under this Agreement.

#### Section 12. Remedies of Indemnitee.

(a) Subject to Section 12(f), in the event that (i) a determination is made pursuant to Section 10 that Indemnitee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 9, (iii) the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 10(b) and such determination shall not have been made and delivered in a written opinion within 90 days after receipt by the Corporation of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 7, Section 8 or the last sentence of Section 10(b) within ten days after receipt by the Corporation of a written request therefor, (v) payment of

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indemnification is not made within ten days after a determination has been made that Indemnitee is entitled to indemnification or such determination is deemed to have been made pursuant to Section 10 or 11, or (vi) payment to Indemnitee pursuant to any contribution rights under this Agreement is not made within the later of ten days after receipt by the Corporation of a written request therefor and the date that Indemnitee is entitled to seek an adjudication by the Delaware Court in accordance with this paragraph for a claim for indemnification with respect to any Proceeding giving rise to a right to contribution, Indemnitee shall be entitled to an adjudication in the Delaware Court of Indemnitee's entitlement to such contribution, indemnification or advancement of Expenses. The Corporation shall not oppose Indemnitee's right to seek any such adjudication.

(b) In the event that a determination shall have been made pursuant to Section 10 that Indemnitee is not entitled to indemnification, any judicial proceeding commenced pursuant to this Section shall be conducted in all respects as a de novo trial on the merits and Indemnitee shall not be prejudiced by reason of that adverse determination and the Corporation may not refer to or introduce into evidence any determination pursuant to Section 10 of this Agreement adverse to Indemnitee. In any judicial proceeding commenced pursuant to this Section, the Corporation shall have the burden of proving that Indemnitee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made or deemed to have been made pursuant to Section 10 or 11 that Indemnitee is entitled to indemnification, the Corporation shall be bound by such determination in any judicial proceeding commenced pursuant to this Section, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) prohibition of such indemnification under applicable law.

(d) The Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court or before any such arbitrator that the Corporation is bound by all the provisions of this Agreement.

(e) In the event that Indemnitee, pursuant to this Section, seeks a judicial adjudication of Indemnitee's rights under, or to recover damages for breach of, this Agreement, Indemnitee shall, to the fullest extent permitted by law, be entitled to recover from the Corporation, and be indemnified by the Corporation against, any and all Expenses incurred by Indemnitee in such judicial adjudication regardless of whether Indemnitee ultimately is determined to be entitled to such indemnification, advancement of Expenses or insurance recovery, as the case may be.

(f) Notwithstanding anything in this Agreement to the contrary, no determination as to entitlement to indemnification under this Agreement shall be required to be made prior to the final disposition of the Proceeding, including any appeal therein.

Section 13. Non-Exclusivity; Survival of Rights; Insurance; Subrogation.

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(a) The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the Restated Certificate of Incorporation or Restated Bylaws of the Corporation, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or any provision hereof shall be effective as to Indemnitee with respect to any action taken or omitted by such Indemnitee in such Indemnitee's Corporate Status prior to such amendment, alteration or repeal.

(b) The Corporation hereby acknowledges that Indemnitee has, or may from time to time have, certain rights to indemnification, advancement of Expenses and/or insurance that is either (1) provided by a fund or other entity with which Indemnitee is associated or its affiliates ("Fund Indemnitors") or (2) pursuant to insurance obtained on Indemnitee's own behalf ("Individual Insurance," and together with the obligations of Fund Indemnitors, the "Other Arrangements"). The Corporation hereby agrees (i) that the Corporation will not assert in any litigation between the Corporation and Indemnitee that the Corporation's obligations under this Agreement are not primary relative to the Other Arrangements, or that any obligation of the providers of the Other Arrangements to advance Expenses or to provide indemnification for the same Expenses, judgments, penalties, fines, other monetary remedies, amounts paid in settlement, incurred by Indemnitee or on Indemnitee's behalf are not secondary, (ii) that the Corporation shall be required to advance the full amount of Expenses (subject to the provisions concerning advancement of Expenses set forth in this Agreement) incurred by Indemnitee and shall be liable for the full amount of all Expenses, judgments, penalties, fines, other monetary remedies, amounts paid in settlement, relative to the Other Arrangements, or as may be required by the terms of this Agreement, the Restated Certificate of Incorporation or Restated Bylaws of the Corporation (or any other agreement between the Corporation and Indemnitee), without regard to any rights Indemnitee may have under the Other Arrangements, and (iii) that with respect to the Corporation's obligations to advance Expenses and indemnify Indemnitee by reason of Indemnitee's service as an officer or director of the Corporation, the Corporation irrevocably waives, relinquishes and releases the providers of the Other Arrangements from any and all claims for contribution, subrogation or any other recovery of any kind in respect thereof. The Corporation further agrees that no advancement or payment by the providers of the Other Arrangements on behalf of Indemnitee with respect to any claim for which Indemnitee has sought indemnification from the Corporation shall affect the foregoing and to the extent consistent with the terms of the Other Arrangements the providers of the Other Arrangements shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of Indemnitee against the Corporation. Nothing in this Agreement shall be deemed to prevent the Corporation from taking any action necessary to require its own insurer(s) to provide coverage to the Corporation or its officers or directors (including Indemnitee), including causing any person (including a provider of Other Arrangements to be named as a party to a declaratory judgment action brought to obtain such relief).

(c) Indemnitee's rights under this Agreement to receive payment of amounts as indemnification or advancement of Expenses shall not be subject to offset, set-off or reduction on

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account of, and shall be separate from, any obligation or liability that Indemnitee may have to the Corporation or any subsidiary and shall be paid without regard thereto.

(d) Except as provided in Section 13(b), the Corporation shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

(e) Except as provided in Section 13(b), in the event of any payment under this Agreement, the Corporation shall be subrogated to the extent of such payment to all the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Corporation to bring suit to enforce such rights.

Section 14. Insurance. Nothing in this Agreement shall be deemed to prohibit the Corporation from purchasing and maintaining insurance, at its expense, to protect itself or Indemnitee against any Expenses, judgments, penalties, fines, other monetary remedies and amounts paid in settlement incurred by Indemnitee in any such capacity, or arising out of Indemnitee's status as such, whether or not Indemnitee would be indemnified against such expense, liability or loss under this Agreement. To the extent that the Corporation maintains an insurance policy or policies providing liability insurance for directors, officers, employees, agents of fiduciaries of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise of which Indemnitee serves or served at the request of the Corporation, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available under such policy or policies for any person then serving as a director, officer, employee, agent or fiduciary. Until the termination of this Agreement in accordance with Section 15, the Corporation shall use commercially reasonable efforts (taking into account the scope and amount of coverage available relative to the cost thereof) to cause to be maintained in effect a policy or policies of directors' and officers' liability insurance providing coverage for directors, officers, employees, agents and fiduciaries of the Corporation that is reasonable in scope and amount, as determined by the Corporation in its reasonable discretion considering applicable facts and circumstances, including, but not limited to, industry standards. In the event of a Change in Control occurring prior to the termination of this Agreement pursuant to Section 15, the Corporation shall maintain (or cause to be maintained) for the benefit of Indemnitee, the same policy or policies of liability insurance for directors, officers, employees, agents or fiduciaries of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person serves at the request of the Corporation that is reasonable in scope and amount, as determined by the Corporation in its reasonable discretion considering applicable facts and circumstances, including, but not limited to, industry standards for a period of ten years thereafter or the termination of this Agreement in accordance with Section 15, whichever is later. The minimum AM Best rating for the insurance carrier of such insurance shall not be less than **A-VI**. If, at the time of the receipt of a notice of a claim pursuant to the terms of this Agreement, the Corporation has directors' and officers' liability insurance in effect, the Corporation shall

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give prompt notice of the commencement of such Proceeding to the insurers in accordance with the procedures set forth in the respective policies. The Corporation shall thereafter take all necessary or desirable action to cause such insurers to pay, on behalf of Indemnitee, all amounts payable as a result of such Proceeding in accordance with the terms of such policies.

Section 15. Duration of Agreement. This Agreement shall continue until and terminate upon the later of: (a) ten years after the date that Indemnitee shall have ceased to serve as a director, officer, employee, agent or fiduciary of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which Indemnitee served at the request of the Corporation; or (b) the final termination of all pending Proceedings in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 12. This Agreement shall be binding upon the Corporation and its successors and assigns and shall inure to the benefit of Indemnitee and Indemnitee's heirs, executors and administrators. The Corporation shall use its reasonable best efforts to require and cause any successor, and any direct or indirect parent of any successor, whether direct or indirect by purchase, merger, consolidation or otherwise, to all, substantially all or a substantial part, of the business and/or assets of the Corporation, by written agreement in form and substance satisfactory to Indemnitee, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Corporation would be required to perform if no such succession has taken place.

Section 16. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including without limitation each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself held invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; (b) such provision or provisions shall be deemed reformed to the extent necessary to conform to applicable law and to give the maximum effect to the intent of the parties hereto; and (c) to the fullest extent possible, the provisions of this Agreement (including without limitation each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself held invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

Section 17. Exception to Right of Indemnification or Advancement of Expenses.

(a) Notwithstanding anything in this Agreement to the contrary, but subject to the penultimate sentence of Section 9 and subject to Section 12(e), Indemnitee shall not be entitled to indemnification or advancement of Expenses under this Agreement with respect to any Proceeding, or any claim therein, brought or made by Indemnitee voluntarily and not by way of defense against the Corporation or any other person or entity unless the initiation thereof was expressly approved by the Board. For the avoidance of doubt, (1) Indemnitee shall not be deemed, for purposes of this paragraph, to have initiated or brought any claim by reason of (a) having asserted any affirmative defenses in connection with a claim not initiated by Indemnitee

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or (b) having made any counterclaim (whether permissive or mandatory) in connection with any claim not initiated by Indemnitee and (2) Indemnitee shall be entitled to indemnification and advancement for any suit initiated by Indemnitee to enforce the rights provided for in this Agreement, as contemplated by the penultimate sentence of Section 9 and Section 12(e).

(b) Notwithstanding anything in this Agreement to the contrary, Indemnitee shall not be entitled to indemnification for an accounting of profits made from the purchase and sale (or sale and purchase) by Indemnitee of securities of the Corporation within the meaning of Section 16(b) of the Securities Exchange Act of 1934, as amended, or similar provisions of state statutory law or common law.

Section 18. Settlement. The Corporation shall have no obligation to indemnify Indemnitee hereunder for any amounts paid in settlement of any Proceeding effected without the Corporation's prior written consent, which shall not be unreasonably withheld.

Section 19. Trust Fund. Upon the occurrence of a Rating Event, the Corporation shall create a trust fund (the "Trust") for the benefit of the Indemnitee under this Agreement and from time to time shall fund additional amounts to the Trust in an amount sufficient to satisfy any and all Expenses reasonably anticipated to be incurred following such Rating Event in connection with investigating, preparing for, participating in, and/or defending any Proceeding and any judgments, fines or other amounts reasonably anticipated to be paid related thereto for which Indemnitee is entitled to indemnification and/or advancement of Expenses pursuant to this Agreement. The amount or amounts to be deposited in the Trust pursuant to the foregoing funding obligation shall be determined by the trustee of the Trust (the "Trustee") taking into account directors' and officers' liability insurance maintained by the Corporation. The terms of the Trust shall provide that (i) the Trust shall not be revoked or the principal thereof invaded without the written consent of Indemnitee, (ii) the Trustee shall advance, within 30 days of a request by Indemnitee, any and all Expenses to Indemnitee (and Indemnitee hereby agrees to reimburse the Trust under the same circumstances for which Indemnitee would be required to reimburse the Corporation under Section 9 of this Agreement), (iii) the Trust shall continue to be funded by the Corporation in accordance with the funding obligation set forth above, (iv) the Trustee shall promptly pay to Indemnitee all amounts for which Indemnitee shall be entitled to indemnification pursuant to this Agreement or otherwise no later than 30 days after notice to the Corporation in accordance with Section 25 and (v) all unexpended funds in the Trust shall revert to the Corporation upon a final determination by the Trustee or a court of competent jurisdiction, as the case may be, that Indemnitee has been fully indemnified under the terms of this Agreement. The Trustee shall be chosen by the Corporation in good faith and must be acceptable to the Indemnitee (provided that the Indemnitee's consent to the selection of a Trustee shall not be unreasonably withheld). All income earned on the assets held in the Trust shall be reported as income by the Corporation for federal, state, local and foreign tax purposes. The Corporation shall pay all costs of establishing and maintaining the Trust and shall indemnify the Trustee against any and all expenses (including attorney's fees), claims, liabilities, loss and damages arising out of or relating to this Agreement or the establishment and maintenance of the Trust. The establishment of the Trust shall not, in any way, diminish the Corporation's obligation to

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indemnify an Indemnitee to the full extent required by this Agreement.

Section 20. Access to Information. The Corporation shall provide Indemnitee with such information as the Corporation determines is reasonable under the circumstances to enable Indemnitee to enforce Indemnitee's rights under this Agreement; provided that the Corporation shall not be required to deliver any information pursuant to this Section 20 if the provision of such information would, in the Corporation's judgment, prejudice the Corporation's rights or obligations in any Proceeding. The foregoing shall not prejudice the rights of Indemnitee to discovery or otherwise in a Proceeding commenced in the Delaware Court to enforce this Agreement. Indemnitee agrees that any information provided to Indemnitee pursuant to this section is material non-public information that Indemnitee is obligated to hold in confidence and may not disclose publicly or trade on the basis of; provided, however, that Indemnitee is permitted to use such information and to disclose such information to Indemnitee's legal counsel solely in connection with defending Indemnitee from legal liability.

Section 21. Identical Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart, signed by the party against whom enforceability is sought, may constitute evidence of the existence of this Agreement.

Section 22. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

Section 23. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

Section 24. Notice by Indemnitee. Indemnitee agrees to notify the Corporation promptly in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder.

Section 25. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom such notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

- (a) If to Indemnitee, to:
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**[Insert Address]**

(b) If to the Corporation, to:

Northrop Grumman Corporation  
2980 Fairview Park Drive  
Falls Church, Virginia 22042

Attention: Corporate Secretary

or to such other address as may have been furnished to Indemnitee by the Corporation or to the Corporation by Indemnitee, as the case may be.

Section 26. Governing Law and Consent to Jurisdiction. This Agreement shall be governed by, and construed and enforced in accordance with, the laws in effect in the State of Delaware, without regard to its conflict of laws rules. The Corporation and Indemnitee hereby irrevocably and unconditionally (i) agree that any action or proceeding arising out of or in connection with this Agreement shall be brought only in the Delaware Court, and not in any other state or federal court in the United States of America or any court in any other country, (ii) consent to submit to the exclusive jurisdiction of the Delaware Court for purposes of any action or proceeding arising out of or in connection with this Agreement, (iii) consent to service of process at the address set forth in Section 25 of this Agreement with the same legal force and validity as if served upon such party personally within the State of Delaware, (iv) waive any objection to the laying of venue of any such action or proceeding in the Delaware Court and (v) waive, and agree not to plead or to make, any claim that any such action or proceeding brought in the Delaware Court has been brought in an improper or inconvenient forum.

Section 27. Enforcement; Specific Performance. The Corporation expressly confirms and agrees that it has entered into this Agreement in order to induce Indemnitee to serve or to continue to serve as a director or officer of the Corporation, and acknowledges that Indemnitee is relying upon this Agreement in continuing in such capacity. The parties hereto agree that a delayed monetary remedy for breach of this Agreement shall cause Indemnitee irreparable harm. Accordingly, the parties hereto agree that Indemnitee may enforce the Corporation's obligations to advance Expenses provided under this Agreement by seeking injunctive relief and/or specific performance hereof, without further showing actual damage or irreparable harm. The parties hereto further agree that Indemnitee shall be entitled to any such specific performance and injunctive relief, including temporary restraining orders, preliminary injunctions and permanent injunctions, without the necessity of posting bonds or other undertaking in connection therewith. The Corporation acknowledges that in the absence of a waiver, a bond or undertaking may be required of Indemnitee by the court, and the Corporation hereby waives any such requirement of a bond or undertaking. Nothing herein shall prevent Indemnitee from seeking or obtaining any other relief to which Indemnitee may be entitled.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement effective as of the

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day and year first above written.

NORTHROP GRUMMAN CORPORATION      INDEMNITEE

\_\_\_\_\_  
Wesley G. Bush                      [Name]  
Chairman,  
Chief Executive Officer and President

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**CERTIFICATION PURSUANT TO  
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Wesley G. Bush, certify that:

1. I have reviewed this report on Form 10-Q of Northrop Grumman Corporation (“company”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the company's most recent fiscal quarter (the company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 24, 2012

**/s/ Wesley G. Bush**

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Wesley G. Bush  
Chairman, Chief Executive Officer and President

**NORTHROP GRUMMAN CORPORATION**

**Exhibit 15**

**LETTER FROM INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

April 24, 2012

Northrop Grumman Corporation  
2980 Fairview Park Drive  
Falls Church, Virginia 22042

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Northrop Grumman Corporation and subsidiaries for the periods ended March 31, 2012 and 2011, as indicated in our report dated April 24, 2012; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2012, is incorporated by reference in Registration Statement Nos. 033-59815, 033-59853, 333-67266, 333-100179, 333-107734, 333-121104, 333-125120, 333-127317, and 333-175798 on Form S-8; and Registration Statement No. 333-175818 on Form S-3.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ Deloitte & Touche LLP  
McLean, Virginia

**NORTHROP GRUMMAN CORPORATION**  
**COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES**

<i>\$ in millions</i>	Three Months Ended March 31		Year Ended December 31				
	2012	2011	2011	2010	2009	2008	2007
<b>Earnings:</b>							
Earnings from continuing operations before income taxes	\$ 756	\$ 758	\$ 3,083	\$ 2,366	\$ 2,070	\$ 1,841	\$ 2,158
<b>Fixed Charges:</b>							
Interest expense, including amortization of debt premium	53	58	221	269	269	271	312
Portion of rental expenses on operating leases deemed to be representative of the interest factor	28	35	140	149	167	177	177
Earnings from continuing operations before income taxes and fixed charges	\$ 837	\$ 851	\$ 3,444	\$ 2,784	\$ 2,506	\$ 2,289	\$ 2,647
<b>Fixed Charges:</b>	\$ 81	\$ 93	\$ 361	\$ 418	\$ 436	\$ 448	\$ 489
Ratio of earnings to fixed charges	10.3	9.2	9.5	6.7	5.7	5.1	5.4